

Allianz Life Insurance Malaysia Berhad

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

Financial statements for the year ended 31 December 2014 (in Ringgit Malaysia)

Domiciled in Malaysia
Principal place of business
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50470 Kuala Lumpur

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)

(Incorporated in Malaysia)

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Allianz Life Insurance Malaysia Berhad

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

Directors' report for the year ended 31 December 2014

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2014.

Principal activities

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

Results

	RM'000
Profit for the year	<u>63,590</u>

Dividend

Since the end of the previous financial year, the Company paid an interim dividend of 2.00 sen per ordinary share under the single-tier system totalling RM4,732,000 in respect of the financial year ended 31 December 2014 on 14 January 2015.

Reserves and provisions

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

Life insurance liabilities

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

Bad and doubtful debts

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

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Bad and doubtful debts (continued)

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

Current assets

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

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

Valuation methods

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

Contingent and other liabilities

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

- (i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

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

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

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Change of circumstances

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

Items of an unusual nature

In the opinion of the Directors, the results of operations of the Company for the financial year ended 31 December 2014 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

Issue of shares

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

Options granted over unissued shares

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

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Corporate governance

A. Board responsibilities and oversight

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

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

A1. Composition of the Board

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

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

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

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

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Corporate governance (continued)

A2. Board Meetings

The Board meets regularly, at least 6 times in a year. Additional Board Meetings are held as and when required. There were 8 Board Meetings held during the financial year ended 31 December 2014 and the attendance of the Directors as at 31 December 2014 was as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Bin Ismail	8	8
Foo San Kan	8	8
Dato' Dr. Thillainathan A/L Ramasamy	8	8
Tan Sri Datuk (Dr.) Rafiah Binti Salim	8	8
Zakri Bin Mohd Khir	8	3 out of 3 meetings held after his appointment as Director on 3 September 2014

A3. Board Committees

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

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

The Board Committees are operating on the terms of reference 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 (continued)

A3. Board Committees (continued)

A.3.1 Audit Committee of AMB

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

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

There were 5 Audit Committee Meetings held by AMB during the financial year ended 31 December 2014 and the attendance of the abovementioned Audit Committee members was as follows:-

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

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

A.3.2 Risk Management Committee of AMB

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

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

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Corporate governance (continued)

A3. Board Committees (continued)

A.3.2 Risk Management Committee of AMB (continued)

There were 4 Risk Management Committee Meetings held by AMB during the financial year ended 31 December 2014 and the attendance of the abovementioned Risk Management Committee members was as follows:-

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

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

- (a) to address strategic and corporate level risks and recommend to the respective Boards of the Group the strategies to manage these risks and ensure its implementation;
- (b) to review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

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Corporate governance (continued)

A3. Board Committees (continued)

A.3.2 Risk Management Committee of AMB (continued)

- (c) to review and recommend risk management strategies, policies and risk parameters/tolerance levels, Internal Capital Adequacy Assessment Process result for the approval of the respective Boards of the Group and to ensure any changes and concerns are communicated to senior management effectively;
- (d) to ensure the risk control functions have adequate resources, authority, infrastructure, systems and independence to enable an effective risk management;
- (e) to review the Key Risks Profile and risks raised by business units and monitor the progress of action plans implemented;
- (f) to review and recommend for the approval of the respective Boards of the Group, the contingency planning, including its effectiveness testing covering policies, processes and resources in place to address potential crisis, unusual circumstances and stress situations;
- (g) to review periodic reports on risk exposure, risk portfolio composition and risk management activities;
- (h) to report to the respective Boards of the Group, the risk management status on a regular basis; and
- (i) to approve the risk methodology to facilitate risk assessment.

A.3.3 Nominating Committee of AMB

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

Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson-Independent Non-Executive Director)
 Tan Sri Razali Bin Ismail (Independent Non-Executive Director)
 Foo San Kan (Independent Non-Executive Director)
 Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
 Tunku Zain Al-Abidin Ibni Tuanku Muhriz (Independent Non-Executive Director of AMB)

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Corporate governance (continued)

A3. Board Committees (continued)

A.3.3 Nominating Committee of AMB (continued)

There were 7 Nominating Committee Meetings held by AMB during the financial year ended 31 December 2014 and the attendance of the abovementioned Nominating Committee members was as follows:-

Name of Members	No. of Nominating Committee Meetings Held	No. of Nominating Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	7	7
Tan Sri Razali Bin Ismail	7	6
Foo San Kan	7	7
Dato' Dr. Thillainathan A/L Ramasamy	7	7
Tunku Zain Al-Abidin Ibni Tuanku Muhriz	7	Not applicable*

Note:-

- * Tunku Zain Al-Abidin Ibni Tuanku Muhriz was appointed as a Nominating Committee member on 28 November 2014. There was no Nominating Committee Meeting held following his appointment.

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

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Corporate governance (continued)

A3. Board Committees (continued)

A.3.3 Nominating Committee of AMB (continued)

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

- (a) establishing minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors as well as diversity including gender diversity, and other core competencies required, through annual reviews;
- (b) recommending and assessing the nominees for directorship, Directors to fill Board Committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and Chief Executive Officer proposed for re-appointment, before an application for approval is submitted to BNM. The Nominating Committee of AMB in making its recommendation to the Board on candidates for directorship or re-appointment, should consider the candidates’:-
 - (i) skill, knowledge, competencies, expertise and experience;
 - (ii) professionalism;
 - (iii) integrity;
 - (iv) commitment, contribution and performance; and
 - (v) in the case of candidate for the position of Independent Non-Executive Directors, the Nominating Committee of AMB should also evaluate the candidates’ ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.
- (c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director including the Independent Directors to the effectiveness of the Board, the contribution of the Board’s various committees and the performance of the Chief Executive Officer. All assessments and evaluations carried out by the Nominating Committee of AMB in discharge of all its functions should be properly documented;
- (d) developing the criteria to assess the independence of its Independent Directors;
- (e) overseeing the appointment, management succession planning and performance evaluation of Directors, Chief Executive Officer and other key responsible persons and recommending to the Board on removal of a Director/Chief Executive Officer/other key responsible person if he/she is ineffective, errant or negligent in discharging his/her responsibilities; and

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Corporate governance (continued)

A3. Board Committees (continued)

A.3.3 Nominating Committee of AMB (continued)

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

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

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

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

A.3.4 Remuneration Committee of AMB

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

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

There were 4 Remuneration Committee Meetings held by AMB during the financial year ended 31 December 2014 and the attendance of the abovementioned Remuneration Committee members was as follows:-

Name of Members	No. of Remuneration Committee Meetings Held	No. of Remuneration Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	4
Tan Sri Razali Bin Ismail	4	3
Foo San Kan	4	4

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Corporate governance (continued)

A3. Board Committees (continued)

A.3.4 Remuneration Committee of AMB (continued)

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

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

- (a) recommending a framework of remuneration for Directors, Chief Executive Officer and other key responsible persons. The remuneration policy should:-
 - (i) be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - (ii) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and other key responsible persons;
 - (iii) be sufficient to attract and retain Directors, Chief Executive Officer and other key responsible persons of calibre needed to manage the Company successfully; and
 - (iv) be balanced against the need to ensure that the funds of the insurer are not used to subsidise excessive remuneration packages.

- (b) recommending specific remuneration packages for Directors, Chief Executive Officer and other key responsible persons. The remuneration packages should:-
 - (i) be based on an objective consideration and approved by the full Board;
 - (ii) take due consideration of the assessments of the Nominating Committee of AMB of the effectiveness and contribution of the Directors, Chief Executive Officer or other key responsible persons concerned;
 - (iii) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - (iv) be competitive and is consistent with the culture, objective and strategy of the Group.

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

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Corporate governance (continued)

A3. Board Committees (continued)

A.3.5 Investment Committee of AMB

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

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

There were 4 Investment Committee Meetings held by AMB during the financial year ended 31 December 2014 and the attendance of the abovementioned Investment Committee members was as follows:-

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

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

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Corporate governance (continued)

B. Management Accountability

B1. Organisational Structure and Allocation of Responsibilities

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

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

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

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 authority limits cover underwriting of risks, claims settlement, reinsurance and capital expenditures and are continuously reviewed and updated to ensure relevance to the Company's operations. Such authority limits are documented and made available to all staff via the Group's staff e-portal.

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

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Corporate governance (continued)

B. Management Accountability (continued)

B2. Communication

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

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

B3. Goal Setting

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

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

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

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

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Corporate governance (continued)

C. Corporate Independence

C1. Related Party Transactions

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

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

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

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

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

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

C2. Group Structure

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

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

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management

D1. Risk Recognition and Assessment

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

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

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

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

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

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D2. Internal Audit

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

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

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

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

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

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

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities

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

Underwriting and reinsurance

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

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

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

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

Financial control procedures

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

Investment

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

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

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

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Investment (continued)

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

Information system

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

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

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

Data management framework

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

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Data privacy

Given the enforcement of the Personal Data Protection Act, 2010 (“PDPA”) with effect from 15 November 2013, all internal processes, practices and policies pertaining to the collection, processing and storage of personal data are continuously monitored to ensure compliance with the PDPA. Additionally, with the adoption of the Allianz Standard for Data Protection and Privacy (“ASDP”) by the Company in August 2014, steps are being taken to implement the Data Privacy Management System (“DPMS”) which is a requirement under the ASDP. The objectives of the DPMS are to ensure compliance with regulatory obligations pertaining to data privacy and securing the trust of customers and business partners in relation to the handling of personal data which ultimately would increase confidence and trust in the Allianz brand.

Product development

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

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

All new products launched in the financial year ended 31 December 2014 were developed in accordance with the requirements of the Framework, approved by the Senior Management Committee, certified by the Appointed Actuary and lodged with BNM pursuant to the Financial Services Act, 2013, prior to the same being marketed by the Company.

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

Company No. 104248-X

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Whistleblowing and anti-fraud

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

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

In respect of whistleblowing, the Company has an established whistleblowing mechanism in place to enable anonymous and non-anonymous reporting of any breach of Code of Conduct for Business Ethics and Compliance, 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 Audit Committee of AMB.

Anti-corruption

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

The Vendor Integrity Screening process which is a part of the Allianz SE Group’s Anti-Corruption Program is aimed at ensuring an integrity based due diligence before any third party vendor is engaged. The screening contains a self-assessment section which amongst 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.

Company No. 104248-X

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Anti-money laundering/counter financing of terrorism

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

Agent sales compliance disciplinary policy

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

Employees and agents

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

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

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

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

Company No. 104248-X

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal Control Activities (continued)

Employees and agents (continued)

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

Business continuity management

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

The testing for Business Continuity Plan for all critical business functions and Disaster Recovery Plan test for all main application systems had been conducted during the financial year ended 31 December 2014 and findings were reported to the Board.

Human resources policies and procedures

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

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

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

Company No. 104248-X

Corporate governance (continued)

E. Public Accountability

The Company complied with the provisions relating to policies under Sections 128, 129 and 130 and Schedules 8, 9 and 10 of the Financial Services Act, 2013. Each staff of the Company and the agency force (intermediary) are also required to adhere to LIAM's Code of Ethics and Conduct when dealing with customers.

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

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

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

F. Financial Reporting

Statutory reporting and public disclosure

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

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

Company No. 104248-X

Corporate governance (continued)

F. Financial Reporting (continued)

Statutory reporting and public disclosure (continued)

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

Management reporting

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

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

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

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

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

Company No. 104248-X

Directors of the Company

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

Tan Sri Razali Bin Ismail (Chairman-Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Independent Non-Executive Director)
Zakri Bin Mohd Khir (Non-Independent Executive Director) (Appointed on
3 September 2014)
Jens Reisch (Non-Independent Executive Director) (Resigned on 10 July 2014)

Directors' interests

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

Directors' benefits

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

There were no arrangements during and at the end of the financial year, which had the objective of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Ultimate holding company

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

Immediate holding company

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

Company No. 104248-X

Auditors

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

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

.....
Tan Sri Razali Bin Ismail

.....
Zakri Bin Mohd Khir

Kuala Lumpur,

Date: 25 February 2015

Allianz Life Insurance Malaysia Berhad

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

Statement of financial position as at 31 December 2014

	Note	2014 RM'000	2013 RM'000
Assets			
Property, plant and equipment	3	22,428	23,050
Investment properties	4	3,300	3,300
Intangible assets	5	41,774	46,645
Investments	6	5,968,500	5,140,083
Derivatives financial assets	14	7,669	-
Reinsurance assets	7	69,980	77,540
Insurance receivables	8	57,639	52,751
Other receivables, deposits and prepayments	9	122,178	87,158
Current tax assets		833	2,691
Cash and cash equivalents		531,148	413,423
Total assets		<u>6,825,449</u>	<u>5,846,641</u>
Equity, policyholders' funds and liabilities			
Share capital	10	236,600	236,600
Fair value reserve	11	(1,475)	(1,257)
Revaluation reserve	11	794	794
Retained earnings	11	412,495	353,637
Total equity		<u>648,414</u>	<u>589,774</u>
Insurance contract liabilities	12	5,494,649	4,667,930
Deferred tax liabilities	13	134,718	118,122
Derivative financial liabilities	14	161	20,950
Subordinated loan	15	54,300	54,300
Other financial liabilities	16	5,594	2,078
Insurance payables	17	124,538	113,092
Other payables and accruals	18	195,121	162,537
Benefits and claims liabilities	19	167,702	117,858
Current tax liabilities		252	-
Total liabilities		<u>6,177,035</u>	<u>5,256,867</u>
Total equity, policyholders' funds and liabilities		<u>6,825,449</u>	<u>5,846,641</u>

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

Allianz Life Insurance Malaysia Berhad

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

Statement of profit or loss for the year ended 31 December 2014

	Note	2014 RM'000	2013 RM'000
Operating revenue	20	<u>2,082,708</u>	<u>1,810,270</u>
Gross earned premiums		1,833,756	1,599,805
Premiums ceded to reinsurers		<u>(135,126)</u>	<u>(101,148)</u>
Net earned premiums	21	<u>1,698,630</u>	<u>1,498,657</u>
Investment income	22	248,952	210,465
Realised gains and losses	23	23,068	61,257
Fair value gains and losses	24	(15,872)	(69,459)
Fee and commission income	25	12,793	6,842
Other operating income		<u>14,554</u>	<u>7,847</u>
Other revenue		<u>283,495</u>	<u>216,952</u>
Gross benefits and claims paid		(613,610)	(477,983)
Claims ceded to reinsurers		108,930	83,521
Gross change in contract liabilities		(855,739)	(752,568)
Change in contract liabilities ceded to reinsurers		<u>(7,560)</u>	<u>(8,996)</u>
Net benefits and claims	26	<u>(1,367,979)</u>	<u>(1,156,026)</u>
Fee and commission expense		(327,746)	(309,802)
Management expenses	27	(153,975)	(144,566)
Other operating expenses		<u>(26,824)</u>	<u>(21,098)</u>
Other expenses		<u>(508,545)</u>	<u>(475,466)</u>
Profit before tax		105,601	84,117
Tax expense	28	<u>(42,011)</u>	<u>(33,357)</u>
Net profit for the year		<u>63,590</u>	<u>50,760</u>

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

Allianz Life Insurance Malaysia Berhad

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2014

	Note	2014 RM'000	2013 RM'000
Net profit for the year attributable to owners of the Company		63,590	50,760
Other comprehensive income, net of tax Items that are or may be reclassified subsequently to profit or loss			
Fair value of available-for-sale ("AFS") financial assets	6	(293)	(4,820)
Tax effects thereon	28	75	1,223
		<u>(218)</u>	<u>(3,597)</u>
Total other comprehensive loss for the year, net of tax		<u>(218)</u>	<u>(3,597)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>63,372</u>	<u>47,163</u>

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

Allianz Life Insurance Malaysia Berhad

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

Statement of changes in equity for the year ended 31 December 2014

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

Company No. 104248-X

Statement of changes in equity for the year ended 31 December 2014 (continued)

Note	← Attributable to owners of the Company →				← Distributable →	
	Share capital RM'000	Fair value reserve RM'000	Revaluation reserve RM'000	Non-participating fund surplus* RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2014	236,600	(1,257)	794	322,160	31,477	589,774
Fair value of available-for-sale financial assets	-	(218)	-	-	-	(218)
Total other comprehensive loss for the year	-	(218)	-	-	-	(218)
Profit for the year	-	-	-	56,394	7,196	63,590
Total comprehensive (loss)/income for the year	-	(218)	-	56,394	7,196	63,372
<i>Contributions by and distributions to owners of the Company</i>						
-Dividend to owners of the Company	29	-	-	-	(4,732)	(4,732)
Total transactions with owners of the Company	-	-	-	-	(4,732)	(4,732)
At 31 December 2014	236,600	(1,475)	794	378,554	33,941	648,414
	Note 10	Note 11	Note 11		Note 11	

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

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

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)

(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2014

	2014 RM'000	2013 RM'000
Cash flows from operating activities		
Profit before tax	105,601	84,117
<i>Adjustments for:</i>		
Investment income	(248,952)	(210,465)
Interest expense	4,588	4,416
Realised gains recorded in profit or loss	(23,068)	(61,257)
Fair value loss on investments recorded in profit or loss	15,872	69,769
Purchase of held-to-maturity ("HTM") financial investments	(355,944)	(209,920)
Maturity of HTM financial investments	15,000	10,000
Purchase of available-for-sale ("AFS") financial investments	(194,810)	(190,647)
Maturity of AFS financial investments	20,000	8,500
Proceeds from sale of AFS financial investments	218,495	176,839
Purchase of held for trading ("HFT") financial investments	(727,635)	(569,961)
Maturity of HFT financial investments	53,960	9,500
Proceeds from sale of HFT financial investments	250,576	240,483
Purchase of designated upon initial recognition ("DUIR") financial investments	(280,982)	(493,375)
Maturity of DUIR financial investments	88,951	92,028
Proceeds from sale of DUIR financial investments	44,549	164,097
Purchase of derivatives financial investments	(1,674)	(2,819)
Change in loans and receivables	(12,510)	(3,815)
Non-cash items:		
Change in fair value of AFS financial assets	29,020	(34,709)
Change in fair value of investment property	-	(310)
Allowance for impairment loss on receivables	853	1,072
Amortisation of intangible assets	4,871	5,386
Depreciation of property, plant and equipment	3,696	3,284
Property, plant and equipment written off	1,257	4
Unrealised foreign exchange loss	566	2,552
Operating loss before changes in working capital	(987,720)	(905,231)

Company No. 104248-X

Statement of cash flows for the year ended 31 December 2014 (continued)

	2014 RM'000	2013 RM'000
Changes in working capital:		
Change in reinsurance assets	7,560	8,996
Change in insurance receivables	(5,613)	1,749
Change in other receivables, deposits and prepayments	(35,148)	(31,048)
Change in insurance contract liabilities	826,719	787,277
Change in other financial liabilities	3,516	662
Change in insurance payables	11,446	22,960
Change in other payables and accruals	25,708	2,718
Change in benefits and claims liabilities	49,844	33,045
Cash used in operations	(103,688)	(78,872)
Tax paid	(20,644)	(23,241)
Dividends received	26,974	26,816
Coupon interest received	221,734	184,150
Rental income on investment properties received	124	96
Net cash generated from operating activities	124,500	108,949
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,331)	(5,649)
Acquisition of intangible assets	-	(50,658)
Net cash used in investing activities	(4,331)	(56,307)
Cash flows from financing activities		
Proceeds from subordinated loan	-	54,300
Payment of loan interest to immediate holding company	(2,444)	(1,212)
Net cash (used in)/from financing activities	(2,444)	53,088
Net increase in cash and cash equivalents	117,725	105,730
Cash and cash equivalents at 1 January	413,423	307,693
Cash and cash equivalents at 31 December	531,148	413,423
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	496,279	381,714
Cash and bank balances	34,869	31,709
	531,148	413,423

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

Allianz Life Insurance Malaysia Berhad

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

Notes to the financial statements

Corporate information

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

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

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

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

These financial statements were approved by the Board of Directors on 25 February 2015.

1. Basis of preparation

1.1 Statement of compliance

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

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

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

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*

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1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interest in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiatives*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture - Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*

Company No. 104248-X

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016 (continued)

- Amendments to MFRS 127, *Separate Financial Statements - Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*

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

- from the annual period beginning on 1 January 2015 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014 except for Amendments to MFRS 1, Amendments to MFRS 2, Amendments to MFRS 3, Amendments to MFRS 8 and Amendments to MFRS 119 which are not applicable to the Company.
- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016 except for Amendments to MFRS 5, Amendments to MFRS 10 and MFRS 128, Amendments to MFRS 10, MFRS 12 and MFRS 128, Amendments to MFRS 11, MFRS 14, Amendments to MFRS 116 and MFRS 141, Amendments to MFRS 119 and Amendments to MFRS 127 which are not applicable to the Company.
- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

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1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

MFRS 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, *Transfer of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition for non-insurance contracts might be different as compared with current practices.

The adoption of MFRS 15 will result in a change in accounting policy. The Company is currently assessing the financial impact of adopting MFRS15.

MFRS 9, *Financial Instruments*

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

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

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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

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

1.4 Use of estimates and judgements

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

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

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

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

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2. Significant accounting policies

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

(a) Foreign currency transactions

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

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

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

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

(b) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

2. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

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

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

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.

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2. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(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.

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

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

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

(c) Investment properties

(i) Investment properties carried at fair value

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

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

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

2. Significant accounting policies (continued)

(c) Investment properties (continued)

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

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.

(ii) Reclassification to/from investment property

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

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

(iii) Determination of fair value

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

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

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2. Significant accounting policies (continued)

(c) Investment properties (continued)

(iii) Determination of fair value (continued)

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

(d) Intangible assets

(i) Development costs

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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

- | | |
|------------------------------------|----------|
| • capitalised software development | 5 years |
| • other intangible assets | 11 years |

2. Significant accounting policies (continued)

(d) Intangible assets (continued)

(iv) Amortisation (continued)

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

(e) Leased assets

(i) Finance lease

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

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

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

(ii) Operating lease

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

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

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2. Significant accounting policies (continued)

(e) Leased assets (continued)

(ii) Operating lease (continued)

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

(f) Financial instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

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

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

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.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

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

Financial assets (continued)

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

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

(2) *Held-to-maturity investments*

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

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

(3) *Loans and receivables, excluding insurance receivables*

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

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

(4) *Available-for-sale financial assets*

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

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

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

Financial assets (continued)

(4) Available-for-sale financial assets (continued)

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

(5) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method.

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

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)).

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

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.

(iii) Financial guarantee contracts

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

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

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(iv) Regular way purchase or sale of financial assets

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

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

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(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 equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, 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 and fixed and call deposits) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

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

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

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

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

2. Significant accounting policies (continued)

(g) Impairment (continued)

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

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.

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

2. Significant accounting policies (continued)

(g) Impairment (continued)

(iii) Other assets

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

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

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

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

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

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

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2. Significant accounting policies (continued)

(h) Equity instruments

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

(i) Ordinary shares

Ordinary share capital is classified as equity.

(ii) Dividends on ordinary share capital

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

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

(i) Product classification

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

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.

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2. Significant accounting policies (continued)

(i) Product classification (continued)

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

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

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

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.

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2. Significant accounting policies (continued)

(j) Reinsurance

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

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

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

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

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.

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2. Significant accounting policies (continued)

(k) Life insurance underwriting results

Surplus

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

Gross premiums

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

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

Reinsurance premiums

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

Benefits, claims and expenses

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

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

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

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

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2. Significant accounting policies (continued)

(k) Life insurance underwriting results (continued)

Commission and agency expenses

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

Fees and commission income

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

(l) Life insurance contract liabilities

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

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

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

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

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2. Significant accounting policies (continued)

(l) Life insurance contract liabilities (continued)

For non-unit liability of investment-linked policy, the liability is valued by projecting future cash flows to ensure that all future outflows can be met without recourse to additional finance or capital support at any future time during the duration of the investment-linked policy.

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

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

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

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

(m) Investment contract liabilities

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

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

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

2. Significant accounting policies (continued)

(m) Investment contract liabilities (continued)

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

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

(n) Other revenue recognition

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

(i) Rental income

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

(ii) Interest income

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

(iii) Dividend income

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

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2. Significant accounting policies (continued)

(n) Other revenue recognition (continued)

(iv) Realised gains and losses on investments

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

(o) Income tax

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

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

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

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

2. Significant accounting policies (continued)

(o) Income tax (continued)

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

Deferred tax liability is recognised for all taxable temporary differences.

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

(p) Provisions

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

(q) Contingent liabilities

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

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2. Significant accounting policies (continued)

(r) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

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

(s) Other financial liabilities and insurance payables

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

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

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

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

2. Significant accounting policies (continued)

(u) Significant accounting judgements, estimates and assumptions

Valuation of life insurance contract liabilities

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

The life insurance contract liability is valued using a prospective actuarial valuation based on the sum of the present value of future guaranteed benefits and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The expected future cash flow is determined using best estimate assumptions and with due regard to significant recent experience.

For non-unit liability of investment-linked policy, the liability is valued by projecting future cash flows to ensure that all future outflows can be met without recourse to additional finance or capital support at any future time during the duration of the investment-linked policy.

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

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

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.

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

2. Significant accounting policies (continued)

(v) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

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

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

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

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3. Property, plant and equipment

	Note	Land RM'000	Buildings RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovation and partitions RM'000	Work-in- progress RM'000	Total RM'000
Cost/Valuation								
At 1 January 2013		6,580	4,315	18,540	1,325	7,554	1,195	39,509
Additions		-	-	2,097	-	194	3,358	5,649
Disposals		-	-	(7)	-	-	-	(7)
Written off		-	-	(42)	-	-	-	(42)
Reclassification #	5	-	-	424	-	2,273	(3,990)	(1,293)
At 31 December 2013/ 1 January 2014		6,580	4,315	21,012	1,325	10,021	563	43,816
Additions		-	-	1,110	107	195	2,919	4,331
Disposals		-	-	-	-	-	-	-
Written off		-	-	(528)	-	(1,699)	-	(2,227)
Reclassification #	5	-	-	1,803	-	896	(2,699)	-
At 31 December 2014		6,580	4,315	23,397	1,432	9,413	783	45,920

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 2013		83	113	12,369	1,035	3,927	-	17,527
Depreciation for the year	27	76	104	2,074	139	891	-	3,284
Disposals		-	-	(7)	-	-	-	(7)
Written off		-	-	(38)	-	-	-	(38)
At 31 December 2013/ 1 January 2014		159	217	14,398	1,174	4,818	-	20,766
Depreciation for the year	27	77	105	2,489	96	929	-	3,696
Disposals		-	-	-	-	-	-	-
Written off		-	-	(442)	-	(528)	-	(970)
At 31 December 2014		236	322	16,445	1,270	5,219	-	23,492
Carrying amounts								
At 1 January 2013		6,497	4,202	6,171	290	3,627	1,195	21,982
At 31 December 2013/ 1 January 2014		6,421	4,098	6,614	151	5,203	563	23,050
At 31 December 2014		6,344	3,993	6,952	162	4,194	783	22,428

Included in property, plant and equipment are fully depreciated assets which are still in use costing RM17,809,000 (2013 : RM14,856,000).

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3. Property, plant and equipment (continued)

3.1 Property, plant and equipment under the revaluation model

The land and buildings were revalued in October 2011 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:

	2014 RM'000	2013 RM'000
Land	4,549	4,605
Buildings	3,169	3,253
	<u>7,718</u>	<u>7,858</u>

3.2 Land

Included in the total carrying amount of land are:

	2014 RM'000	2013 RM'000
Freehold land	850	850
Leasehold land with unexpired lease period of more than 50 years	5,494	5,571
	<u>6,344</u>	<u>6,421</u>

3.3 Fair value information

Fair value of land and buildings are categorised as follows:

	2014			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	6,344	-	6,344
Buildings	-	3,993	-	3,993
	-	<u>10,337</u>	-	<u>10,337</u>
	2013			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	6,421	-	6,421
Buildings	-	4,098	-	4,098
	-	<u>10,519</u>	-	<u>10,519</u>

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3. Property, plant and equipment (continued)

3.3 Fair value information (continued)

Level 2 fair value

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

4. Investment properties

	Note	2014 RM'000	2013 RM'000
At 1 January		3,300	2,990
Change in fair value recognised in profit or loss	24	-	310
At 31 December		<u>3,300</u>	<u>3,300</u>
		2014 RM'000	2013 RM'000
Included in the above are:			
At fair value:			
Freehold land		730	730
Buildings		2,570	2,570
		<u>3,300</u>	<u>3,300</u>

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4. Investment properties (continued)

The fair value of the investment properties is determined based on valuations performed by an external independent professional qualified valuer in October 2014 using the comparison method.

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

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

	2014 RM'000	2013 RM'000
Rental income	124	96
Direct operating expenses:		
-income generating investment properties	(4)	(8)

4.1 Fair value information

Fair value of investment properties are categorised as follows:

	2014			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Freehold land	-	730	-	730
Buildings	-	2,570	-	2,570
	-	3,300	-	3,300

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

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4. Investment properties (continued)

4.1 Fair value information (continued)

Level 2 fair value

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

5. Intangible assets

	Note	Software development costs RM'000	Other intangible assets RM'000	Total RM'000
Cost				
At 1 January 2013		3,681	-	3,681
Additions		163	50,495	50,658
Reclassification	3	1,293	-	1,293
At 31 December 2013/ 1 January 2014		5,137	50,495	55,632
Additions		-	-	-
Reclassification	3	-	-	-
At 31 December 2014		5,137	50,495	55,632
Amortisation				
At 1 January 2013		3,601	-	3,601
Amortisation for the year	27	337	5,049	5,386
At 31 December 2013/ 1 January 2014		3,938	5,049	8,987
Amortisation for the year	27	326	4,545	4,871
At 31 December 2014		4,264	9,594	13,858
Carrying amounts				
At 1 January 2013		80	-	80
At 31 December 2013/ 1 January 2014		1,199	45,446	46,645
At 31 December 2014		873	40,901	41,774

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5. Intangible assets (continued)

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

Other intangible assets are in relation to the exclusive bancassurance agreement which provides the Company with an exclusive right to the use of the bancassurance network of a bank to sell, market and promote conventional life product. The 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 right is amortised over its useful life of 11 years using the straight-line method. The future economic benefits that are attributable to the Bancassurance Agreement was valued at the present value of projected future cash flows to be derived from the tenure of the agreement of 11 years using the discounting cash flow model.

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

Key assumptions

Bancassurance annualised new premium growth rate	3.7% - 87.9% per annum
Discount rate	8.0%

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

	2014	2013
	RM'000	RM'000
Malaysian government securities	1,767,789	1,429,862
Malaysian government guaranteed bonds	1,076,885	946,941
Ringgit denominated bonds by foreign issuers in Malaysia	180,383	181,037
Quoted equity securities of corporations in Malaysia	777,985	795,603
Quoted equity securities of corporations outside Malaysia	819	880
Unquoted equity securities of corporations in Malaysia	2,147	2,147
Unquoted bonds of corporations in Malaysia	1,600,639	1,246,832
Quoted unit trusts in Malaysia	57,844	52,797
Unquoted unit trusts in Malaysia	2,980	5,390
Unquoted unit trusts outside Malaysia	54,337	50,676
Structured deposits with licensed financial institutions	153,201	146,937
Government guaranteed loans	190,000	190,000
Mortgage loans	9,598	70
Policy loans	13,975	12,515
Automatic premium loans	79,918	73,239
Fixed and call deposits with licensed financial institutions	-	5,157
	<u>5,968,500</u>	<u>5,140,083</u>

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6. Investments (continued)

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

	Current		Non-current		Total	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Held-to-maturity financial assets ("HTM")	30,000	15,000	1,635,180	1,308,892	1,665,180	1,323,892
Available-for-sale financial assets ("AFS")	661,282	738,617	-	-	661,282	738,617
Loans and receivables ("LAR")	96,580	90,926	196,911	190,055	293,491	280,981
Fair value through profit or loss ("FVTPL")						
- Held for trading ("HFT")	1,317,769	917,651	-	-	1,317,769	917,651
- Designated upon initial recognition ("DUIR")	2,030,778	1,878,942	-	-	2,030,778	1,878,942
	<u>4,136,409</u>	<u>3,641,136</u>	<u>1,832,091</u>	<u>1,498,947</u>	<u>5,968,500</u>	<u>5,140,083</u>

	2014		2013	
	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000
Held-to-maturity				
Malaysian government securities	945,957	938,883	680,270	669,761
Malaysian government guaranteed bonds	619,370	613,090	543,837	522,711
Ringgit denominated bonds by foreign issuers in Malaysia	99,853	100,909	99,785	101,848
	<u>1,665,180</u>	<u>1,652,882</u>	<u>1,323,892</u>	<u>1,294,320</u>

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6. Investments (continued)

Available-for-sale

	← Fair value →	
	2014	2013
	RM'000	RM'000
Malaysian government securities	80,092	79,795
Malaysian government guaranteed bonds	34,978	45,805
Ringgit denominated bonds by foreign issuers in Malaysia	13,535	13,643
Quoted equity securities of corporations in Malaysia	345,668	415,481
Unquoted bonds of corporations in Malaysia	85,033	90,643
Quoted unit trusts in Malaysia	54,952	48,659
Unquoted unit trusts in Malaysia	1,130	4,164
Unquoted unit trusts outside Malaysia	41,676	36,185
Structured deposits with licensed financial institutions	2,071	2,095
	659,135	736,470

	← Cost →	
	2014	2013
	RM'000	RM'000
Unquoted equity securities of corporations in Malaysia	2,147	2,147
	2,147	2,147
Total available-for-sale financial investments	661,282	738,617

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6. Investments (continued)

	2014		2013	
	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000
Loans and receivables				
Government guaranteed loans	190,000	190,000	190,000	190,000
Mortgage loans	9,598	9,598	70	70
Policy loans	13,975	13,975	12,515	12,515
Automatic premium loans	79,918	79,918	73,239	73,239
Fixed and call deposits with: Licensed financial institutions	-	-	5,157	5,157
	<u>293,491</u>	<u>293,491</u>	<u>280,981</u>	<u>280,981</u>

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6. Investments (continued)

	← Fair value →	
	2014 RM'000	2013 RM'000
Fair value through profit or loss		
Held for trading		
Malaysian government securities	262,350	161,721
Malaysian government guaranteed bonds	164,687	106,742
Ringgit denominated bonds by foreign issuers in Malaysia	5,121	5,193
Quoted equity securities of corporations in Malaysia	432,317	380,122
Quoted equity securities of corporations outside Malaysia	819	880
Unquoted bonds of corporations in Malaysia	405,115	217,943
Quoted unit trusts in Malaysia	2,892	4,138
Unquoted unit trusts in Malaysia	1,850	1,226
Unquoted unit trusts outside Malaysia	12,661	14,491
Structured deposits with licensed financial institutions	29,957	25,195
	1,317,769	917,651

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6. Investments (continued)

	← Fair value →	
	2014 RM'000	2013 RM'000
Fair value through profit or loss		
Designated upon initial recognition		
Malaysian government securities	479,390	508,076
Malaysian government guaranteed bonds	257,850	250,557
Ringgit denominated bonds by foreign issuers in Malaysia	61,874	62,416
Unquoted bonds of corporations in Malaysia	1,110,491	938,246
Structured deposits with licensed financial institutions	121,173	119,647
	<u>2,030,778</u>	<u>1,878,942</u>
Total fair value through profit or loss financial investments	<u>3,348,547</u>	<u>2,796,593</u>

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6. Investments (continued)

Carrying values of financial instruments

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

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6. Investments (continued)

Carrying values of financial instruments (continued)

	Note	HTM RM'000	AFS RM'000	LAR RM'000	HFT RM'000	DUIR RM'000	Total RM'000
At 1 January 2014		1,323,892	738,617	280,981	917,651	1,878,942	5,140,083
Purchases/placements		355,944	194,810	14,616,986	727,635	280,982	16,176,357
Maturities		(15,000)	(20,000)	(14,604,476)	(53,960)	(88,951)	(14,782,387)
Disposals		-	(198,290)	-	(245,214)	(45,269)	(488,773)
Fair value gains/(losses) recorded in:							
Profit or loss							
- Unrealised (losses)/gains	24	-	-	-	(28,241)	5,926	(22,315)
- Unrealised foreign exchange losses		-	-	-	(628)	-	(628)
- Movement in impairment allowance	24	-	(22,120)	-	-	-	(22,120)
Insurance contract liabilities	12	-	(31,544)	-	-	-	(31,544)
Other comprehensive income		-	(293)	-	-	-	(293)
Amortisation of premiums		(912)	(160)	-	(430)	(2,705)	(4,207)
Accretion of discounts		1,256	262	-	956	1,853	4,327
At 31 December 2014		1,665,180	661,282	293,491	1,317,769	2,030,778	5,968,500

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7. Reinsurance assets

	Note	2014 RM'000	2013 RM'000
Reinsurance of insurance contracts			
Actuarial liabilities			
- Current		52	100
- Non-current		69,928	77,440
	12	<u>69,980</u>	<u>77,540</u>

8. Insurance receivables

	Note	2014 RM'000	2013 RM'000
Current			
Due premium including agents, brokers and co-insurers balances		50,999	47,647
Due from reinsurers and cedants		8,984	6,877
Due from ultimate holding company	8.1	14	20
Group claims receivables		1,327	1,167
		<u>61,324</u>	<u>55,711</u>
Less: Allowance for impairment	35.1(ii)	<u>(3,685)</u>	<u>(2,960)</u>
		<u>57,639</u>	<u>52,751</u>

8.1 Amount due from ultimate holding company

The amount due from ultimate holding company is unsecured.

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9. Other receivables, deposits and prepayments

	Note	2014 RM'000	2013 RM'000
Non-current			
Other receivables		3,710	3,156
Malaysian Institute of Insurance ("MII") bonds		100	100
		<u>3,810</u>	<u>3,256</u>
Current			
Other receivables		12,733	21,060
Sundry deposits		871	647
Less: Allowance for impairment	35.1(ii)	(658)	(530)
		<u>12,946</u>	<u>21,177</u>
Income due and accrued		56,749	47,791
Due from related companies	9.1	164	1,461
Due from inter-fund	18	48,509	13,473
		<u>118,368</u>	<u>83,902</u>
		<u>122,178</u>	<u>87,158</u>

9.1 Amount due from related companies

The amount due from related companies is unsecured, interest free and repayable on demand.

10. Share capital

	2014		2013	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Authorised:				
Ordinary shares of RM1 each				
At 1 January/31 December	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>
Issued and fully paid:				
Ordinary shares of RM1 each				
On issue at 1 January/31 December	<u>236,600</u>	<u>236,600</u>	<u>236,600</u>	<u>236,600</u>

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.

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11. Reserves

Fair value reserve

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

Revaluation reserve

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

Retained earnings

Restriction on payment of dividends

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

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

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12. Insurance contract liabilities

	← 2014 →			← 2013 →		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Actuarial liabilities	4,694,730	(69,980)	4,624,750	3,956,026	(77,540)	3,878,486
Unallocated surplus	69,138	-	69,138	67,830	-	67,830
Available-for-sale fair value reserve	70,777	-	70,777	99,797	-	99,797
Net asset value attributable to unitholders	658,223	-	658,223	542,496	-	542,496
Revaluation reserve	1,781	-	1,781	1,781	-	1,781
	5,494,649	(69,980)	5,424,669	4,667,930	(77,540)	4,590,390
		Note 7			Note 7	

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12. Insurance contract liabilities (continued)

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

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12. Insurance contract liabilities (continued)

	Note	Gross			Reinsurance			Net RM'000
		With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	
At 1 January 2014		2,978,413	1,689,517	4,667,930	-	(77,540)	(77,540)	4,590,390
Premiums received		419,571	1,414,185	1,833,756	(9,939)	(125,187)	(135,126)	1,698,630
Liabilities paid for death, maturities, surrenders, benefits and claims		(139,362)	(474,248)	(613,610)	7,551	101,379	108,930	(504,680)
Benefits and claims experience variation		13,973	(59,756)	(45,783)	939	20,161	21,100	(24,683)
Fees deducted		(43,945)	(429,748)	(473,693)	1,449	11,344	12,793	(460,900)
Expected interest on reserve/net investment income attributable to Universal Life Fund		129,459	41,815	171,274	-	(2,667)	(2,667)	168,607
Adjustments due to changes in assumptions		(8,630)	(2,144)	(10,774)	-	2,530	2,530	(8,244)
Net asset value attributable to unitholders		-	(6,739)	(6,739)	-	-	-	(6,739)
Available-for-sale fair value reserve	6	(31,544)	-	(31,544)	-	-	-	(31,544)
Unallocated surplus		1,308	-	1,308	-	-	-	1,308
Deferred tax effect:								
Available-for-sale fair value reserve	28	2,524	-	2,524	-	-	-	2,524
At 31 December 2014		3,321,767	2,172,882	5,494,649	-	(69,980)	(69,980)	5,424,669

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13. Deferred tax assets/(liabilities)

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

	Asset		Liabilities		Net	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Property, plant and equipment	-	-	(431)	(460)	(431)	(460)
Investment properties	-	-	(71)	(71)	(71)	(71)
Unallocated surplus	-	-	(126,185)	(107,387)	(126,185)	(107,387)
Available-for-sale fair value reserve	-	-	(5,632)	(8,231)	(5,632)	(8,231)
Fair value movement recognised in profit or loss	-	-	(2,306)	(1,771)	(2,306)	(1,771)
Revaluation reserve	-	-	(189)	(189)	(189)	(189)
Net amortisation/(accretion)	96	-	-	(13)	96	(13)
Set off of tax	(96)	-	96	-	-	-
Net tax assets/(liabilities)	-	-	(134,718)	(118,122)	(134,718)	(118,122)

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

13.2 Movement in temporary differences during the year

	At 1 January 2013 RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in other compre- hensive income (Note 28) RM'000	Recognised in insurance contract liabilities (Note 28) RM'000	At 31 December 2013/ 1 January 2014 RM'000	Recognised in profit or loss (Note 28) RM'000	Recognised in other compre- hensive income (Note 28) RM'000	Recognised in insurance contract liabilities (Note 28) RM'000	At 31 December 2014 RM'000
Property, plant and equipment	(468)	8	-	-	(460)	29	-	-	(431)
Investment properties	(46)	(25)	-	-	(71)	-	-	-	(71)
Unallocated surplus	(93,140)	(14,247)	-	-	(107,387)	(18,798)	-	-	(126,185)
Available-for-sale fair value reserve	(6,436)	-	1,223	(3,018)	(8,231)	-	75	2,524	(5,632)
Fair value movement recognised in profit or loss	(7,004)	5,233	-	-	(1,771)	(535)	-	-	(2,306)
Revaluation reserve	(189)	-	-	-	(189)	-	-	-	(189)
Net amortisation /(accretion)	201	(214)	-	-	(13)	109	-	-	96
Net tax (liabilities)/ assets	(107,082)	(9,245)	1,223	(3,018)	(118,122)	(19,195)	75	2,524	(134,718)

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14. Derivative financial assets/(liabilities)

	Nominal value RM'000	Assets RM'000	Liabilities RM'000
2014			
Derivatives held for trading at fair value through profit or loss			
- Collateralised forward starting interest rate swap	400,000	6,958	(161)
- Put option	50,000	711	-
	<u>450,000</u>	<u>7,669</u>	<u>(161)</u>
2013			
Derivatives held for trading at fair value through profit or loss			
- Collateralised forward starting interest rate swap	400,000	-	(20,950)
- Put option	49,999	-	-
	<u>449,999</u>	<u>-</u>	<u>(20,950)</u>

15. Subordinated loan

	Note	2014 RM'000	2013 RM'000
Non-current			
Subordinated loan	15.1	<u>54,300</u>	<u>54,300</u>
		<u>54,300</u>	<u>54,300</u>

15.1 Subordinated loan from immediate holding company

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

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16. Other financial liabilities

	2014 RM'000	2013 RM'000
Non-current		
Deposits received from reinsurers	810	991
	<u>810</u>	<u>991</u>
Current		
Outstanding purchase of investment securities	4,784	1,087
	<u>4,784</u>	<u>1,087</u>
	<u>5,594</u>	<u>2,078</u>

17. Insurance payables

	Note	2014 RM'000	2013 RM'000
Current			
Due to reinsurers and cedants		34,423	20,068
Due to agents, brokers and co-insurers and insurers		85,670	86,140
Due to a related company	17.1	4,445	6,884
		<u>124,538</u>	<u>113,092</u>

17.1 Amount due to a related company

The amount due to a related company is unsecured.

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18. Other payables and accruals

	Note	2014 RM'000	2013 RM'000
Non-current			
Other payables	18.1	<u>43,421</u>	<u>51,776</u>
Current			
Other payables and accrued expenses	18.1	96,554	95,463
Due to immediate holding company	18.2	6,597	1,825
Due to related company	18.2	40	-
Due to inter-fund	9	48,509	13,473
		<u>151,700</u>	<u>110,761</u>
		<u>195,121</u>	<u>162,537</u>

18.1 Other payables and accrued expenses

Included in other payables and accrued expenses at 31 December 2014 is an amount of RM65,336,000 (2013: RM70,509,000) relating to premium received in advance and RM19,001,000 (2013: RM19,758,000) relating to premium deposits.

18.2 Amounts due to immediate holding company and related company

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

19. Benefits and claims liabilities

	2014 RM'000	2013 RM'000
Current		
Gross benefits and claims liabilities	185,571	131,250
Less: Recoverable from reinsurers	<u>(17,869)</u>	<u>(13,392)</u>
Net benefits and claims liabilities	<u>167,702</u>	<u>117,858</u>

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20. Operating revenue

	Note	2014 RM'000	2013 RM'000
Gross earned premiums	21	1,833,756	1,599,805
Investment income	22	248,952	210,465
		<u>2,082,708</u>	<u>1,810,270</u>

21. Net earned premiums

	Note	2014 RM'000	2013 RM'000
Gross earned premiums	20	1,833,756	1,599,805
Premiums ceded to reinsurers		(135,126)	(101,148)
Net earned premiums		<u>1,698,630</u>	<u>1,498,657</u>

22. Investment income

	2014 RM'000	2013 RM'000
Rental of premises from:		
- Investment properties	124	96
Held-to-maturity financial assets		
Coupon income from:		
- Malaysian government securities	33,031	25,345
- Malaysian government guaranteed bonds	25,600	22,070
- Ringgit denominated bonds by foreign issuers in Malaysia	4,441	4,488
Accretion of discounts on:		
- Malaysian government securities	636	411
- Malaysian government guaranteed bonds	552	530
- Ringgit denominated bonds by foreign issuers in Malaysia	68	65
Amortisation of premiums on:		
- Malaysian government securities	(798)	(662)
- Malaysian government guaranteed bonds	(114)	(107)

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22. Investment income (continued)

	2014 RM'000	2013 RM'000
Available-for-sale financial assets		
Coupon income from:		
- Malaysian government securities	3,059	2,908
- Malaysian government guaranteed bonds	1,178	1,607
- Ringgit denominated bonds by foreign issuers in Malaysia	597	597
- Unquoted bonds of corporations in Malaysia	3,847	4,060
Dividend income from:		
- Quoted equity securities of corporations in Malaysia	9,744	11,916
- Quoted unit trusts in Malaysia	5,165	3,190
Accretion of discounts on:		
- Malaysian government securities	57	7
- Malaysian government guaranteed bonds	201	168
- Ringgit denominated bonds by foreign issuers in Malaysia	4	4
Amortisation of premiums on:		
- Malaysian government securities	(82)	(126)
- Malaysian government guaranteed bonds	(38)	(38)
- Unquoted bonds of corporations in Malaysia	(40)	(45)
Interest income from licensed financial institutions:		
- Structured deposits	105	105
Loans and receivables		
Interest income from:		
- Government guaranteed loans	8,643	8,645
- Mortgage loans	640	5
- Policy loans	958	924
- Automatic premium loans	5,851	5,173
Interest income from licensed financial institutions:		
- Fixed and call deposits	13,035	9,941

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22. Investment income (continued)

	2014 RM'000	2013 RM'000
Fair value through profit or loss - Held for trading financial assets		
Coupon income from:		
- Malaysian government securities	8,870	3,723
- Malaysian government guaranteed bonds	5,795	2,747
- Ringgit denominated bonds by foreign issuers in Malaysia	244	246
- Unquoted bonds of corporations in Malaysia	14,590	8,025
Dividend income from:		
- Quoted equity securities of corporations in Malaysia	11,794	11,485
- Quoted unit trusts in Malaysia	271	225
Interest income from licensed financial institutions:		
- Structured deposits	646	1,576
- Collateralised forward starting interest rate swap	148	(7)
Accretion of discounts on:		
- Malaysian government securities	276	67
- Malaysian government guaranteed bonds	351	145
- Unquoted bonds of corporations in Malaysia	30	18
- Structured deposits	299	283
Amortisation of premiums on:		
- Malaysian government securities	(86)	(79)
- Malaysian government guaranteed bonds	(27)	(24)
- Unquoted bonds of corporations in Malaysia	(317)	(203)

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22. Investment income (continued)

	2014 RM'000	2013 RM'000
Fair value through profit or loss - Designated upon initial recognition financial assets		
Coupon income from:		
- Malaysian government securities	21,615	21,247
- Malaysian government guaranteed bonds	10,506	8,362
- Ringgit denominated bonds by foreign issuers in Malaysia	2,791	2,795
- Unquoted bonds of corporations in Malaysia	50,896	44,923
Interest income from licensed financial institutions:		
- Structured deposits	4,648	4,645
Accretion of discounts on:		
- Malaysian government securities	183	146
- Malaysian government guaranteed bonds	409	351
- Ringgit denominated bonds by foreign issuers in Malaysia	7	6
- Unquoted bonds of corporations in Malaysia	49	455
- Structured deposits	1,205	1,145
Amortisation of premiums on:		
- Malaysian government securities	(1,608)	(1,758)
- Malaysian government guaranteed bonds	(75)	(65)
- Unquoted bonds of corporations in Malaysia	(1,022)	(1,291)
	<u>248,952</u>	<u>210,465</u>
	Note 20	Note 20

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23. Realised gains and losses

	2014 RM'000	2013 RM'000
Realised gains on disposal of investments in debt and equity securities:		
Malaysian government securities	20	2,952
Quoted equity securities of corporations in Malaysia	69,110	57,819
Quoted equity securities of corporations outside Malaysia	215	4
Unquoted bonds of corporations in Malaysia	-	2,583
Quoted unit trusts in Malaysia	315	6,956
Unquoted unit trusts in Malaysia	245	-
Unquoted unit trusts outside Malaysia	86	73
Realised losses on disposal of investments in debt and equity securities:		
Malaysian government securities	(753)	(183)
Quoted equity securities of corporations in Malaysia	(42,459)	(4,158)
Quoted equity securities of corporations outside Malaysia	(133)	(68)
Quoted unit trusts in Malaysia	(14)	-
Unquoted unit trusts outside Malaysia	(1,774)	(1,144)
Structured deposits	(11)	(3)
Put options	(1,779)	(3,574)
	<u>23,068</u>	<u>61,257</u>

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24. Fair value gains/(losses)

	Note	2014 RM'000	2013 RM'000
Investment properties	4	-	310
Held for trading financial assets Designated upon initial recognition	6	(28,241)	26,092
financial assets	6	5,926	(65,949)
Derivatives		28,563	(29,141)
Total fair value gains/(losses) on financial assets at FVTPL		6,248	(68,998)
Impairment loss on AFS financial assets	6	(22,120)	(771)
		<u>(15,872)</u>	<u>(69,459)</u>

25. Fee and commission income

	2014 RM'000	2013 RM'000
Reinsurance commission income	<u>12,793</u>	<u>6,842</u>

26. Net benefits and claims

	2014 RM'000	2013 RM'000
Gross benefits and claims paid	(613,610)	(477,983)
Claims ceded to reinsurers	108,930	83,521
Net claims paid	<u>(504,680)</u>	<u>(394,462)</u>
Gross change in contract liabilities	(855,739)	(752,568)
Change in contract liabilities ceded to reinsurers	(7,560)	(8,996)
	<u>(1,367,979)</u>	<u>(1,156,026)</u>

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27. Management expenses

	Note	2014 RM'000	2013 RM'000
Advertising and marketing expenses		24,584	21,406
Allowance for impairment loss on receivables		853	1,072
Amortisation of intangible assets	5	4,871	5,386
Auditors' remuneration:			
- statutory audit fees, KPMG Malaysia		284	255
- non-audit fees, KPMG Malaysia		49	8
Bank charges		11,871	10,669
Depreciation on property, plant and equipment	3	3,696	3,284
Employee benefits expense	27(a)	60,288	58,619
Executive director's emoluments	27(b)	2,725	2,028
Non-executive directors' fee and other emoluments		537	507
Rental of premises:			
Third parties		5,166	4,769
Other expense		39,051	36,563
		<u>153,975</u>	<u>144,566</u>
		2014 RM'000	2013 RM'000
(a) Employee benefits expense			
Wages and salaries		33,263	33,039
Social security contributions		298	296
Contributions to Employees' Provident Fund		6,497	5,861
Other benefits		20,230	19,423
		<u>60,288</u>	<u>58,619</u>

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27. Management expenses (continued)

(b) Key management personnel compensation

	2014 RM'000	2013 RM'000
Executive director:		
Salaries	1,018	1,216
Bonus	1,707	812
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	179	265
	<u>2,904</u>	<u>2,293</u>
Non-executive directors:		
Fees	329	329
Other emoluments	208	178
Estimated monetary value of benefits-in-kind	15	18
	<u>552</u>	<u>525</u>
	<u>3,456</u>	<u>2,818</u>
Other key management personnel:		
Short term employee benefits	<u>5,480</u>	<u>5,250</u>

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

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

	2014 RM'000	2013 RM'000
Salaries and other emoluments	1,165	1,216
Bonus	1,707	812
Estimated monetary value of benefits-in-kind	179	265
	<u>3,051</u>	<u>2,293</u>
Amount included in employee benefits expense	<u>3,051</u>	<u>2,293</u>

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27. Management expenses (continued)

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

2014	Salaries RM'000	Bonus RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in- kind RM'000	Total RM'000
Chief Executive Officers						
Jens Reisch	1,018	1,707	-	-	179	2,904
Tapan Kumar Rangam Bir	147	-	-	-	-	147
Total Chief Executive Officers' remuneration (including benefits-in-kind)	<u>1,165</u>	<u>1,707</u>	<u>-</u>	<u>-</u>	<u>179</u>	<u>3,051</u>
Executive Director						
Jens Reisch	1,018	1,707	-	-	179	2,904
Non Executive Directors						
Tan Sri Razali Bin Ismail	-	-	88	175	15	278
Foo San Kan	-	-	82	11	-	93
Dato' Dr. Thillainathan A/L Ramasamy	-	-	77	11	-	88
Tan Sri Datuk (Dr.) Rafiah Binti Salim	-	-	82	11	-	93
Total Directors' remuneration (including benefits-in-kind)	<u>1,018</u>	<u>1,707</u>	<u>329</u>	<u>208</u>	<u>194</u>	<u>3,456</u>

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27. Management expenses (continued)

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

2013	Salaries RM'000	Bonus RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in- kind RM'000	Total RM'000
Chief Executive Officers						
Jens Reisch	1,216	812	-	-	265	2,293
Tapan Kumar Rangam Bir	-	-	-	-	-	-
Total Chief Executive Officers' remuneration (including benefits-in-kind)	<u>1,216</u>	<u>812</u>	<u>-</u>	<u>-</u>	<u>265</u>	<u>2,293</u>
Executive Director						
Jens Reisch	1,216	812	-	-	265	2,293
Non Executive Directors						
Tan Sri Razali Bin Ismail	-	-	88	154	18	260
Foo San Kan	-	-	82	8	-	90
Dato' Dr. Thillainathan A/L Ramasamy	-	-	77	8	-	85
Tan Sri Datuk (Dr.) Rafiah Binti Salim	-	-	82	8	-	90
Total Directors' remuneration (including benefits-in-kind)	<u>1,216</u>	<u>812</u>	<u>329</u>	<u>178</u>	<u>283</u>	<u>2,818</u>

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28. Tax expense

	2014 RM'000	2013 RM'000
(a) Recognised in profit or loss		
Current tax expense		
Current year	22,789	23,768
Under provision in prior year	27	344
	<u>22,816</u>	<u>24,112</u>
Deferred tax expense		
Origination and reversal of temporary differences	19,195	9,245
Total tax expense	<u>42,011</u>	<u>33,357</u>

The income tax provided for in the life fund for the current and previous financial years is in respect of investment income which is taxed at a tax rate of 8% (2013: 8%) applicable for life insurance business and 25% (2013: 25%) on income other than investment income which is taxed under Section 60(8) of the Income Tax Act, 1967.

For the shareholders' fund, the corporate tax rate is at 25% for year of assessment 2014 to 2015. Consequently, deferred tax assets and liabilities of shareholders' fund are measured using this tax rate. The taxes of respective funds are disclosed in Note 36 – Insurance funds.

(b) Reconciliation of tax expense

	2014 RM'000	2013 RM'000
Profit before tax	<u>105,601</u>	<u>84,117</u>
Tax at Malaysian tax rates of 25% (2013: 25%)	26,400	21,029
Tax rate differential of 17% in respect of life fund	2,667	2,026
Section 110B tax credit set off	(878)	(837)
Income not subject to tax	(137,872)	(121,628)
Non-deductible expenses	152,004	132,597
Other items	(337)	(174)
Under provision in prior year	27	344
Total tax expense	<u>42,011</u>	<u>33,357</u>

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28. Tax expense (continued)**(c) Income tax recognised directly in other comprehensive income**

	2014 RM'000	2013 RM'000
Fair value reserve		
At 1 January	(447)	776
Net loss arising from change in fair value	<u>(75)</u>	<u>(1,223)</u>
At 31 December	<u><u>(522)</u></u>	<u><u>(447)</u></u>
Revaluation reserve		
At 1 January	57	57
Net gain arising from change in fair value	<u>-</u>	<u>-</u>
At 31 December	<u><u>57</u></u>	<u><u>57</u></u>

(d) Income tax recognised in insurance contract liabilities

	Note	2014 RM'000	2013 RM'000
Available-for-sale fair value reserve			
At 1 January		8,678	5,660
Net (loss)/gain arising from change in fair value	12	<u>(2,524)</u>	<u>3,018</u>
At 31 December		<u><u>6,154</u></u>	<u><u>8,678</u></u>
Revaluation reserve			
At 1 January		132	132
Net gain arising from change in fair value		<u>-</u>	<u>-</u>
At 31 December		<u><u>132</u></u>	<u><u>132</u></u>

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28. Tax expense (continued)

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

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

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

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

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

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

The industry has appealed to the Ministry of Finance ("MOF") to allow tax losses of the shareholders' fund to be preserved for utilisation against the taxable income from the same source. The industry is still awaiting reply from MOF.

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29. Dividends

There was no dividend paid during the financial year.

Dividend approved in financial year 2014 by the Company as appropriation of profits is as follows:

	Sen per share (single tier)	Total amount RM'000	Date of payment
2014			
Interim 2014 ordinary	<u>2.00</u>	<u>4,732</u>	14 January 2015

30. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2014 RM'000	2013 RM'000
Less than one year	2,218	992
Between one and five years	<u>1,694</u>	<u>503</u>
	<u><u>3,912</u></u>	<u><u>1,495</u></u>

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

Leases as lessor

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

	2014 RM'000	2013 RM'000
Less than one year	160	180
Between one and five years	<u>218</u>	<u>40</u>
	<u><u>378</u></u>	<u><u>220</u></u>

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31. Capital commitments

	2014 RM'000	2013 RM'000
Property, plant and equipment		
Authorised but not contracted for	21,938	15,191
Contracted but not provided for	4,401	2,931
	<u>26,339</u>	<u>18,122</u>

32. 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. 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 27.

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32. Related parties (continued)

Significant related party transactions

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

Transactions	Amount transacted for the year ended 31 December 2014 RM'000	Amount transacted for the year ended 31 December 2013 RM'000
Ultimate holding company		
Reinsurance premium and commission	(917)	(151)
Reimbursement/(Payment) of personnel expenses	101	(478)
Payment of global marketing expenses	(951)	(546)
Immediate holding company		
Reimbursement of other expenses	284	254
Sharing of common expenses	(6,670)	(5,656)
Subordinated loan	-	54,300
Interest payment for subordinated loan	(2,444)	(2,403)
Related companies*		
Reinsurance premium and commission	(105,722)	(81,638)
(Payment)/Receipt of insurance premium	(83)	62
Motor insurance premium	(244)	(215)
Redemption of foreign unit trusts	1,727	765
Reimbursement/(Payment) of fund management fees and advisory fees	35	(829)
Payment of brokerage fee for purchases and disposals of equity	-	(21)
Payment of personnel expenses	(1,586)	(1,365)
Payment of other expenses	(3,160)	(683)
Rental expenses	(391)	(169)
Rental income	126	109
Payment of intranet portal network cost	(77)	(137)
Reimbursement of sharing of common expenses	1,021	741
Sharing of asset and investment manager database expenses	(428)	(281)
Payment for purchases of various software licenses	-	(28)
Sharing of expenses of HR database platform and recruitment solution	(32)	(24)
Payment of relationship manager fees	(600)	-

* Related companies are companies within the Allianz SE group.

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

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33. Risk management framework

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

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

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

(a) Risk underwriting and identification

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

(b) Risk reporting and monitoring

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

(c) Risk strategy and risk appetite

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

(d) Communication and transparency

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

33. Risk management framework (continued)

Risk governance structure

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

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

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

Asset and Liability Management ("ALM") Framework

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

The ALM process chosen will reflect external and internal constraints.

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

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33. Risk management framework (continued)

Governance and regulatory framework

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

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

34. Underwriting risk

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

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

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34. Underwriting risk (continued)

The underwriting risk of life insurance contracts consists of mortality/longevity and calamity risks. Mortality/longevity risk represents the risk of loss attributable to positive or negative changes in the assumed medical prognosis for life expectancy, occupational disability, illness and the need for long-term care as well as underestimation of these probabilities. Calamity risk represents the risk of loss because of strong short-term fluctuation in the mortality rate, for example as a result of war or epidemics.

The table below shows the concentration of life insurance contract liabilities with and without DPF by type of contract.

	Gross			Reinsurance			Net RM'000
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	
2014							
Whole life	2,163,990	621,708	2,785,698	-	(10,263)	(10,263)	2,775,435
Endowment	596,299	608,484	1,204,783	-	-	-	1,204,783
Mortgage	-	107,232	107,232	-	(59,717)	(59,717)	47,515
Riders and others	419,781	177,236	597,017	-	-	-	597,017
Total	3,180,070	1,514,660	4,694,730	-	(69,980)	(69,980)	4,624,750
2013							
Whole life	1,862,139	435,066	2,297,205	-	(10,645)	(10,645)	2,286,560
Endowment	562,767	454,346	1,017,113	-	-	-	1,017,113
Mortgage	-	119,097	119,097	-	(66,895)	(66,895)	52,202
Riders and others	384,098	138,513	522,611	-	-	-	522,611
Total	2,809,004	1,147,022	3,956,026	-	(77,540)	(77,540)	3,878,486

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

34. Underwriting risk (continued)

Key assumptions

Significant judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experiences, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation. They are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

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

- Mortality and morbidity rates

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

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

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

- Expenses

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

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

34. Underwriting risk (continued)

Key assumptions (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 4.50% - 6.50% per annum. The long term gross rate of return is derived based on a basket of strategic asset allocations. The Company calculates long term gross rate by assuming each asset class will earn the targeted yield. The strategic asset allocation and targeted yield are reviewed annually in accordance to the Company's investment philosophy, market condition and the prevailing long term market return for each asset class.

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

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34. Underwriting risk (continued)

Key assumptions (continued)

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

Type of business	Mortality and morbidity rates ⁽¹⁾		Lapse and surrender rate		Discount rate	
	2014	2013	2014	2013	2014	2013
	%	%	%	%	%	%
With fixed and guaranteed terms and with DPF contracts						
Life insurance	60-80	70-80	3-30	3-30	4.50-6.50	4.50-6.50
Without DPF contracts						
Life insurance	60-150	70-150	3-50	3-40	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.

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34. Underwriting risk (continued)

Sensitivities

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

	Change in assumptions %	Impact on Profit before tax# RM'000	Impact on Gross liabilities* RM'000	Impact on Net liabilities* RM'000
Life insurance contracts				
2014				
Mortality and morbidity rates	+5%	(7,357)	14,386	11,400
Discount rate	-0.5%	(24,031)	291,139	289,013
Expenses	+10%	(9,020)	16,052	16,052
Lapse and surrender rates	-10%	1,578	15,760	15,474
2013				
Mortality and morbidity rates	+5%	(5,851)	13,802	10,310
Discount rate	-0.5%	(23,472)	248,371	245,984
Expenses	+10%	(10,653)	18,468	18,468
Lapse and surrender rates	-10%	978	24,083	23,744

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

34. Underwriting risk (continued)

Sensitivities (continued)

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

35. Financial risks

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

35.1 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 underwriting of life insurance business and the investment in fixed income instruments. Financial loss may materialise when the counterparty failed to meet payment obligations for various reasons.

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

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

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

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35. Financial risks (continued)

35.1 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
2014			
HTM financial investments			
Malaysian government securities	945,957	-	945,957
Malaysian government guaranteed bonds	619,370	-	619,370
Ringgit denominated bonds by foreign issuers in Malaysia	99,853	-	99,853
LAR			
Government guaranteed loans	190,000	-	190,000
Other loans	103,491	-	103,491
Fixed and call deposits	-	-	-
AFS financial investments			
Malaysian government securities	80,092	-	80,092
Malaysian government guaranteed bonds	34,978	-	34,978
Ringgit denominated bonds by foreign issuers in Malaysia	13,535	-	13,535
Debt securities	85,033	-	85,033
Structured deposits	2,071	-	2,071
FVTPL - HFT financial investments			
Malaysian government securities	257,953	4,397	262,350

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35. Financial risks (continued)

35.1 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
2014 (continued)			
FVTPL - HFT financial investments (continued)			
Malaysian government guaranteed bonds	148,253	16,434	164,687
Ringgit denominated bonds by foreign issuers in Malaysia	1,536	3,585	5,121
Debt securities	277,473	127,642	405,115
Structured deposits	14,978	14,979	29,957
FVTPL - DUIR financial investments			
Malaysian government securities	479,390	-	479,390
Malaysian government guaranteed bonds	257,850	-	257,850
Ringgit denominated bonds by foreign issuers in Malaysia	61,874	-	61,874
Debt securities	1,110,491	-	1,110,491
Structured deposits	121,173	-	121,173
Derivatives financial assets			
Collateralised forward starting interest rate swap	6,958	-	6,958
Put option	711	-	711
Reinsurance assets	69,980	-	69,980
Insurance receivables	57,639	-	57,639
Other receivables and deposits	112,069	10,109	122,178
Cash and cash equivalents	360,786	170,362	531,148
	5,513,494	347,508	5,861,002

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure (continued)

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

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure (continued)

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

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating

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

	Investment grade* RM'000	Neither past-due nor impaired		Investment- linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
		Non- investment grade RM'000	Non-rated RM'000			
2014						
HTM financial investments						
Malaysian government securities	-	-	945,957	-	-	945,957
Malaysian government guaranteed bonds	-	-	619,370	-	-	619,370
Ringgit denominated bonds by foreign issuers in Malaysia	99,853	-	-	-	-	99,853
LAR						
Government guaranteed loans	-	-	190,000	-	-	190,000
Other loans	-	-	103,491	-	-	103,491
Fixed and call deposits	-	-	-	-	-	-
AFS financial investments						
Malaysian government securities	-	-	80,092	-	-	80,092
Malaysian government guaranteed bonds	-	-	34,978	-	-	34,978
Ringgit denominated bonds by foreign issuers in Malaysia	13,535	-	-	-	-	13,535
Debt securities	85,033	-	-	-	-	85,033
Structured deposits	2,071	-	-	-	-	2,071
FVTPL - HFT financial investments						
Malaysian government securities	-	-	257,953	4,397	-	262,350
Malaysian government guaranteed bonds	-	-	148,253	16,434	-	164,687

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	Investment grade * RM'000	Neither past-due nor impaired			Past-due but not impaired RM'000	Total RM'000
		Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000		
2014 (continued)						
FVTPL - HFT financial investments (continued)						
Ringgit denominated bonds by foreign issuers in Malaysia	1,536	-	-	3,585	-	5,121
Debt securities	277,473	-	-	127,642	-	405,115
Structured deposits	14,978	-	-	14,979	-	29,957
FVTPL - DUIR financial investments						
Malaysian government securities	-	-	479,390	-	-	479,390
Malaysian government guaranteed bonds	-	-	257,850	-	-	257,850
Ringgit denominated bonds by foreign issuers in Malaysia	61,874	-	-	-	-	61,874
Debt securities	1,110,491	-	-	-	-	1,110,491
Structured deposits	121,173	-	-	-	-	121,173
Derivatives financial assets						
Collateralised forward starting interest rate swap	-	-	6,958	-	-	6,958
Put option	-	-	711	-	-	711
Reinsurance assets	69,092	-	888	-	-	69,980
Insurance receivables	-	-	53,022	-	4,617	57,639
Other receivables and deposits	-	-	112,069	10,109	-	122,178
Cash and cash equivalents	360,237	-	549	170,362	-	531,148
	2,217,346	-	3,291,531	347,508	4,617	5,861,002

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

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

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

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

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB RM'000	Non-rated RM'000	Investment- linked funds RM'000	Total RM'000
2014								
HTM financial investments								
Malaysian government securities	-	-	-	-	-	945,957	-	945,957
Malaysian government guaranteed bonds	-	-	-	-	-	619,370	-	619,370
Ringgit denominated bonds by foreign issuers in Malaysia	84,853	15,000	-	-	-	-	-	99,853
LAR								
Government guaranteed loans	-	-	-	-	-	190,000	-	190,000
Other loans	-	-	-	-	-	103,491	-	103,491
Fixed and call deposits	-	-	-	-	-	-	-	-
AFS financial investments								
Malaysian government securities	-	-	-	-	-	80,092	-	80,092
Malaysian government guaranteed bonds	-	-	-	-	-	34,978	-	34,978
Ringgit denominated bonds by foreign issuers in Malaysia	12,024	1,511	-	-	-	-	-	13,535
Debt securities	17,094	67,939	-	-	-	-	-	85,033
Structured deposits	2,071	-	-	-	-	-	-	2,071
FVTPL - HFT financial investments								
Malaysian government securities	-	-	-	-	-	257,953	4,397	262,350
Malaysian government guaranteed bonds	-	-	-	-	-	148,253	16,434	164,687

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB RM'000	Non-rated RM'000	Investment- linked funds RM'000	Total RM'000
2014 (continued)								
FVTPL - HFT financial investments (continued)								
Ringgit denominated bonds by foreign issuers in Malaysia	1,536	-	-	-	-	-	3,585	5,121
Debt securities	132,703	144,770	-	-	-	-	127,642	405,115
Structured deposits	14,978	-	-	-	-	-	14,979	29,957
FVTPL – DUIR financial investments								
Malaysian government securities	-	-	-	-	-	479,390	-	479,390
Malaysian government guaranteed bonds	-	-	-	-	-	257,850	-	257,850
Ringgit denominated bonds by foreign issuers in Malaysia	53,312	8,562	-	-	-	-	-	61,874
Debt securities	529,378	575,933	-	5,180	-	-	-	1,110,491
Structured deposits	121,173	-	-	-	-	-	-	121,173
Derivatives financial assets								
Collateralised forward starting interest rate swap	-	-	-	-	-	6,958	-	6,958
Put option	-	-	-	-	-	711	-	711
Reinsurance assets	-	68,482	610	-	-	888	-	69,980
Insurance receivables	-	-	-	-	-	57,639	-	57,639
Other receivables and deposits	-	-	-	-	-	112,069	10,109	122,178
Cash and cash equivalents	246,222	57,526	56,489	-	-	549	170,362	531,148
	1,215,344	939,723	57,099	5,180	-	3,296,148	347,508	5,861,002

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

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

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35. Financial risks (continued)

35.1 Credit risk (continued)

Credit exposure by credit rating (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB RM'000	Non-rated RM'000	Investment- linked funds RM'000	Total RM'000
2014								
Investment grade	1,215,344	939,723	57,099	5,180	-	-	316,569	2,533,915
Non-investment grade	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	3,291,531	30,939	3,322,470
Past-due but not impaired	-	-	-	-	-	4,617	-	4,617
	<u>1,215,344</u>	<u>939,723</u>	<u>57,099</u>	<u>5,180</u>	<u>-</u>	<u>3,296,148</u>	<u>347,508</u>	<u>5,861,002</u>
2013								
Investment grade	1,023,384	810,856	35,013	-	-	-	190,430	2,059,683
Non-investment grade	-	-	-	-	5,110	-	-	5,110
Non-rated	-	-	-	-	-	2,754,610	38,049	2,792,659
Past-due but not impaired	-	-	-	-	-	6,010	-	6,010
	<u>1,023,384</u>	<u>810,856</u>	<u>35,013</u>	<u>-</u>	<u>5,110</u>	<u>2,760,620</u>	<u>228,479</u>	<u>4,863,462</u>

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35. Financial risks (continued)

35.1 Credit risk (continued)

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

(i) Past-due but not impaired financial assets

Age analysis of financial assets past-due but not impaired

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

Insurance receivables	< 90 days RM'000	91-180 days RM'000	Investment- linked funds RM'000	Total RM'000
2014	4,617	-	-	4,617
2013	6,010	-	-	6,010

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35. Financial risks (continued)

35.1 Credit risk (continued)

(ii) Past-due and impaired financial assets

At 31 December 2014, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM3,685,000 (2013: RM2,960,000) and other receivables of RM658,000 (2013: RM530,000) respectively. No collateral is held as security for any past-due or impaired financial assets. The Company records impairment allowance for insurance receivables and other receivables in separate allowance for impairment accounts. A reconciliation of the allowance for impairment losses for insurance receivables and other receivables are as follows:

	Insurance receivables		Other receivables	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	2,960	1,751	530	667
Impairment loss recognised/ (reversed)	725	1,209	128	(137)
At 31 December	<u>3,685</u>	<u>2,960</u>	<u>658</u>	<u>530</u>
	Note 8	Note 8	Note 9	Note 9

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35. Financial risks (continued)

35.2 Liquidity risk

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

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

Maturity profiles

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

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

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

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35. Financial risks (continued)

35.2 Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	5-15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
2014								
Insurance contract liabilities								
With DPF	3,321,767	424,915	94,723	314,275	1,851,636	9,500,518	-	12,186,067
Without DPF	2,172,882	1,725,793	47,311	39,970	300,013	364,018	-	2,477,105
Derivative financial liabilities	161	161	-	-	-	-	-	161
Subordinated loan	54,300	2,444	4,894	4,887	62,869	-	-	75,094
Other financial liabilities	5,594	4,784	810	-	-	-	-	5,594
Insurance payables	124,538	124,538	-	-	-	-	-	124,538
Other payables and accruals	129,785	129,785	-	-	-	-	-	129,785
Benefits and claims liabilities	167,702	167,702	-	-	-	-	-	167,702
Total liabilities	5,976,729	2,580,122	147,738	359,132	2,214,518	9,864,536	-	15,166,046
2013								
Insurance contract liabilities								
With DPF	2,978,413	376,578	(72,968)	331,765	2,047,466	7,584,472	-	10,267,313
Without DPF	1,689,517	1,246,540	20,351	60,370	303,698	356,005	-	1,986,964
Derivative financial liabilities	20,950	20,950	-	-	-	-	-	20,950
Subordinated loan	54,300	1,249	4,897	4,887	65,312	-	-	76,345
Other financial liabilities	2,078	1,087	991	-	-	-	-	2,078
Insurance payables	113,092	113,092	-	-	-	-	-	113,092
Other payables and accruals	92,028	92,028	-	-	-	-	-	92,028
Benefits and claims liabilities	117,858	117,858	-	-	-	-	-	117,858
Total liabilities	5,068,236	1,969,382	(46,729)	397,022	2,416,476	7,940,477	-	12,676,628

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35. Financial risks (continued)

35.3 Market risk

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

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

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

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

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35. Financial risks (continued)

35.3 Market risk (continued)

35.3.1 Currency risk

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

The Company's primary transactions are carried out in Ringgit Malaysia (RM) and its exposure to foreign exchange risk arises principally with respect to US Dollar (USD), Australian Dollar (AUD), Singapore Dollar (SGD), Thai Baht (THB) and 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:

Denominated in	Financial assets RM'000	Investment-linked funds RM'000
2014		
USD	41,677	12,661
AUD	-	-
SGD	-	439
THB	-	110
IDR	-	269
	<hr/>	<hr/>

35. Financial risks (continued)

35.3 Market risk (continued)

35.3.1 Currency risk (continued)

Exposure to foreign currency risk (continued)

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

Currency risk sensitivity analysis

It is estimated that a 10% (2013:10%) strengthening of the Ringgit Malaysia (RM) against the following currencies at the end of the reporting period would have increased/(decreased) the insurance contract liabilities by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted income and expenses.

	Impact on insurance contract liabilities 2014 RM'000	Impact on insurance contract liabilities 2013 RM'000
USD	(5,434)	(5,068)
AUD	-	(2,520)
SGD	(44)	(56)
THB	(11)	(15)
IDR	(27)	(17)

It is estimated that a 10% (2013:10%) 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.

Company No. 104248-X

35. Financial risks (continued)

35.3 Market risk (continued)

35.3.2 Interest rate/Profit yield risk

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

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

Interest rate risk sensitivity analysis

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

	Change in variables	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000
2014				
Interest rate	+100 basis points	(68,462)	(47,798)	(96,335)
Interest rate	+200 basis points	(130,638)	(91,220)	(183,716)
2013				
Interest rate	+100 basis points	(74,889)	(52,275)	(64,682)
Interest rate	+200 basis points	(142,704)	(99,625)	(123,591)

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35. Financial risks (continued)

35.3 Market risk (continued)

35.3.2 Interest rate/Profit yield risk (continued)

Interest rate risk sensitivity analysis (continued)

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

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

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

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

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35. Financial risks (continued)

35.3 Market risk (continued)

35.3.3 Equity price risk

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

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

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

Equity price risk sensitivity analysis

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

	Changes in variable	2014			2013		
		Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000
Market indices							
Market value	-10%	-	-	(74,369)	-	-	(77,733)
Market value	-20%	-	-	(147,932)	-	-	(154,328)

35. Financial risks (continued)

35.3 Market risk (continued)

35.3.3 Equity price risk (continued)

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

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

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

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

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

35.4 Operational risk

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

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

35. Financial risks (continued)

35.4 Operational risk (continued)

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

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

35.5 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, put option and collateralised forward starting interest rate swap are based on the indicative market prices from the issuing banks;
- The fair values of quoted equity securities of corporations in and outside Malaysia and quoted unit trusts in Malaysia are based on quoted closing market price as at the end of the reporting period;
- The unquoted equity securities of corporations in Malaysia are stated at cost. Where in the opinion of the Directors, there is a decline other than temporary in value of unquoted equity securities, the allowance for impairment is recognised as an expense in the financial year in which the decline is identified;
- The fair values of Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers in Malaysia and unquoted bonds of corporations in Malaysia are based on the indicative market yields obtained from three financial institutions;
- The fair values of unquoted unit trusts in and outside Malaysia are based on the net asset values of the unit trusts as at the date of the statements of assets and liabilities obtained from fund managers;
- The carrying amount of government guaranteed loans, policy loans, mortgage loans, automatic premium loans, subordinated loan, other secured loans, other unsecured loans and fixed and call deposits and other financial liabilities are assumed to reasonably approximate their fair values; and

35. Financial risks (continued)

35.5 Fair value of financial instruments (continued)

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

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

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

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35. Financial risks (continued)

35.5 Fair value of financial instruments (continued)

35.5.1 Fair value information

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

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2014										
Financial assets										
Malaysian government securities	-	821,832	-	821,832	-	938,883	-	938,883	1,760,715	1,767,789
Malaysian government guaranteed bonds	-	457,515	-	457,515	-	613,090	-	613,090	1,070,605	1,076,885
Ringgit denominated bonds by foreign issuers in Malaysia	-	80,530	-	80,530	-	100,909	-	100,909	181,439	180,383
Quoted equity securities of corporations in Malaysia	777,985	-	-	777,985	-	-	-	-	777,985	777,985
Quoted equity securities of corporations outside Malaysia	819	-	-	819	-	-	-	-	819	819
Unquoted bonds of corporations in Malaysia	-	1,600,639	-	1,600,639	-	-	-	-	1,600,639	1,600,639
Quoted unit trusts in Malaysia	57,844	-	-	57,844	-	-	-	-	57,844	57,844
Unquoted unit trusts in Malaysia	-	2,980	-	2,980	-	-	-	-	2,980	2,980
Unquoted unit trusts outside Malaysia	-	54,337	-	54,337	-	-	-	-	54,337	54,337
Collateralised forward starting interest rate swap	-	6,958	-	6,958	-	-	-	-	6,958	6,958
Put option	-	711	-	711	-	-	-	-	711	711
Structured deposits with licensed financial institutions	-	153,201	-	153,201	-	-	-	-	153,201	153,201
Government guaranteed loans	-	-	-	-	-	190,000	-	190,000	190,000	190,000
	836,648	3,178,703	-	4,015,351	-	1,842,882	-	1,842,882	5,858,233	5,870,531
Financial liabilities										
Collateralised forward starting interest rate swap	-	161	-	161	-	-	-	-	161	161
Subordinated loan	-	-	-	-	-	54,300	-	54,300	54,300	54,300
	-	161	-	161	-	54,300	-	54,300	54,461	54,461

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35. Financial risks (continued)

35.5 Fair value of financial instruments (continued)

35.5.1 Fair value information (continued)

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

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

35. Financial risks (continued)

35.5 Fair value of financial instruments (continued)

35.5.1 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 (2013: no transfer in either directions).

36. Capital management

Regulatory capital requirements

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

The Company has been in compliance with the said requirement.

The total capital available of the Company as at 31 December 2014, as prescribed under the RBC Framework is provided below:

	Note	2014 RM'000	2013 RM'000
Tier 1 Capital			
Paid up share capital	10	236,600	236,600
Reserves, including retained earnings		607,816	528,854
Capital instruments which qualifies as Tier 1 Capital		565,685	590,887
		<u>1,410,101</u>	<u>1,356,341</u>
Tier 2 Capital			
Revaluation reserve		2,575	2,575
Available-for-sale reserve		69,302	98,540
Subordinated loan		55,492	55,492
		<u>127,369</u>	<u>156,607</u>
Amount deducted from capital		(44,714)	(52,130)
Total capital available		<u><u>1,492,756</u></u>	<u><u>1,460,818</u></u>

Company No. 104248-X

37. 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 for the year ended 31 December

	Shareholders' fund		Life fund		Total	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Assets						
Property, plant and equipment	-	-	22,428	23,050	22,428	23,050
Investment properties	-	-	3,300	3,300	3,300	3,300
Intangible assets	40,901	45,446	873	1,199	41,774	46,645
Investments	232,395	247,170	5,736,105	4,892,913	5,968,500	5,140,083
Derivative financial assets	-	-	7,669	-	7,669	-
Reinsurance assets	-	-	69,980	77,540	69,980	77,540
Insurance receivables	-	-	57,639	52,751	57,639	52,751
Other receivables, deposits and prepayments	43,494	12,562	78,684	74,596	122,178	87,158
Current tax assets	-	973	833	1,718	833	2,691
Cash and cash equivalents	13,196	16,255	517,952	397,168	531,148	413,423
	<u>329,986</u>	<u>322,406</u>	<u>6,495,463</u>	<u>5,524,235</u>	<u>6,825,449</u>	<u>5,846,641</u>

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37. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Total	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Total equity	268,946	266,708	379,468	323,066	648,414	589,774
Total policyholders' funds and liabilities						
Insurance contract liabilities	-	-	5,494,649	4,667,930	5,494,649	4,667,930
Deferred tax liabilities	(408)	(384)	135,126	118,506	134,718	118,122
Derivative financial liabilities	-	-	161	20,950	161	20,950
Subordinated loan	54,300	54,300	-	-	54,300	54,300
Other financial liabilities	-	-	5,594	2,078	5,594	2,078
Insurance payables	-	-	124,538	113,092	124,538	113,092
Other payables and accruals	6,896	1,782	188,225	160,755	195,121	162,537
Benefits and claims liabilities	-	-	167,702	117,858	167,702	117,858
Current tax liabilities	252	-	-	-	252	-
	61,040	55,698	6,115,995	5,201,169	6,177,035	5,256,867
Total equity, policyholders' funds and liabilities	329,986	322,406	6,495,463	5,524,235	6,825,449	5,846,641

Company No. 104248-X

37. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Total	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Operating revenue	10,631	10,190	2,072,077	1,800,080	2,082,708	1,810,270
Gross earned premiums	-	-	1,833,756	1,599,805	1,833,756	1,599,805
Premiums ceded to reinsurers	-	-	(135,126)	(101,148)	(135,126)	(101,148)
Net earned premiums	-	-	1,698,630	1,498,657	1,698,630	1,498,657
Investment income	10,631	10,190	238,321	200,275	248,952	210,465
Realised gains and losses	249	(72)	22,819	61,329	23,068	61,257
Fair value gains and losses	-	-	(15,872)	(69,459)	(15,872)	(69,459)
Fee and commission income	-	-	12,793	6,842	12,793	6,842
Other operating income	-	-	14,554	7,847	14,554	7,847
Other revenue	10,880	10,118	272,615	206,834	283,495	216,952
Gross benefits and claims paid	-	-	(613,610)	(477,983)	(613,610)	(477,983)
Claims ceded to reinsurers	-	-	108,930	83,521	108,930	83,521
Gross change in contract liabilities	-	-	(855,739)	(752,568)	(855,739)	(752,568)
Change in contract liabilities ceded to reinsurers	-	-	(7,560)	(8,996)	(7,560)	(8,996)
Net benefits and claims	-	-	(1,367,979)	(1,156,026)	(1,367,979)	(1,156,026)
Fee and commission expense	-	-	(327,746)	(309,802)	(327,746)	(309,802)
Management expenses	(8,028)	(5,162)	(145,947)	(139,404)	(153,975)	(144,566)
Other operating expenses	(3,117)	(2,937)	(23,707)	(18,161)	(26,824)	(21,098)
Other expenses	(11,145)	(8,099)	(497,400)	(467,367)	(508,545)	(475,466)
Transfer	10,972	10,203	(10,972)	(10,203)	-	-
Profit/Surplus before tax	10,707	12,222	94,894	71,895	105,601	84,117
Tax expense (Note 28)	(3,511)	(4,203)	(38,500)	(29,154)	(42,011)	(33,357)
Net profit/Surplus after tax	7,196	8,019	56,394	42,741	63,590	50,760

Company No. 104248-X

37. Insurance funds (continued)

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

	2014 RM'000	2013 RM'000
Assets		
Financial investments	498,823	464,341
Interest and dividend receivables, and other receivables	10,109	6,326
Cash and cash equivalents	170,362	76,853
Total assets	<u>679,294</u>	<u>547,520</u>
Liabilities		
Deferred tax liabilities	1,844	4,014
Other financial liabilities	4,784	-
Other payables	421	344
Benefits and claims liabilities	13,948	550
Current tax liabilities	74	116
Total liabilities	<u>21,071</u>	<u>5,024</u>
Net asset value of funds (Note 12)	<u>658,223</u>	<u>542,496</u>

Company No. 104248-X

37. Insurance funds (continued)

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

	2014 RM'000	2013 RM'000
Investment income	18,971	18,205
Realised gains and losses	5,631	21,667
Fair value gains and losses	(23,849)	29,010
Other operating income	7	6
	<hr/> 760	<hr/> 68,888
Other operating expenses	(8,284)	(8,220)
(Loss)/Profit before tax	<hr/> (7,524)	<hr/> 60,668
Tax credit/(expense)	785	(4,835)
Net (loss)/profit for the year	<hr/> (6,739)	<hr/> 55,833

Company No. 104248-X

37. Insurance funds (continued)

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

	Shareholders' fund		Life fund		Investment-linked funds		Total	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash flows (used in)/from:								
Operating activities	(615)	12,825	31,606	69,260	93,509	26,864	124,500	108,949
Investing activities	-	(50,495)	(4,331)	(5,812)	-	-	(4,331)	(56,307)
Financing activities	(2,444)	53,088	-	-	-	-	(2,444)	53,088
Net (decrease)/increase in cash and cash equivalents	(3,059)	15,418	27,275	63,448	93,509	26,864	117,725	105,730
At beginning of year	16,255	837	320,315	256,867	76,853	49,989	413,423	307,693
At end of year	13,196	16,255	347,590	320,315	170,362	76,853	531,148	413,423

Allianz Life Insurance Malaysia Berhad

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

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

In the opinion of the Directors, the financial statements set out on pages 29 to 152 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2014 and of its financial performance and cash flows for the financial year then ended.

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

.....
Tan Sri Razali Bin Ismail

.....
Zakri Bin Mohd Khir

Kuala Lumpur,

Date: 25 February 2015

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)

(Incorporated in Malaysia)

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

I, **Ong Eng Chow**, the officer primarily responsible for the financial management of Allianz Life Insurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 29 to 152 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Federal Territory on 25 February 2015.

.....
Ong Eng Chow

Before me:

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

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

Report on the Financial Statements

We have audited the financial statements of Allianz Life Insurance Malaysia Berhad, which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 29 to 152.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Company No. 104248-X

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2014 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

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

Other Matter

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Loh Kam Hian
Approval Number: 2941/09/16(J)
Chartered Accountant

Petaling Jaya,

Date: 25 February 2015