GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD

(93745-A)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2018

93745-A

GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
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GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The Company is engaged principally in the underwriting of life insurance business including investments-linked business.

RESULTS

	RM'000
Net profit for the year	885,744

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

SUBSEQUENT EVENTS

On 9 November 2018, the Group announced that the Company will make a contribution of RM2.0 billion to the B40 National Protection Scheme as part of its corporate social responsibility efforts and in satisfaction of the local shareholding requirements applicable to insurance companies in Malaysia.

ULTIMATE HOLDING COMPANY

The ultimate holding company is Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), a public listed company incorporated in the Republic of Singapore.

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DIVIDENDS

The amount of dividends paid by the Company since 31 December 2017 were as follows:

	RM'000
In respect of financial year ended 31 December 2017:	
Final single tier dividend of RM4.25 per ordinary share on 100,000,005 ordinary shares declared on 17 April 2018 and paid on 25 April 2018	425,000
In respect of financial year ended 31 December 2018:	
Interim single tier dividend of RM1.00 per ordinary share on 100,000,005 ordinary shares paid on 24 September 2018	100,000
	525,000

At the forthcoming Annual General Meeting, a second and final single tier dividend in respect of the current financial year ended 31 December 2018 on 100,000,005 ordinary shares amounting to a total dividend of RM653,000,033 (RM6.53 per share) will be proposed for shareholder's approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in the shareholder's equity as an appropriation of retained profits in the next financial year ending 31 December 2019.

DIRECTORS

The names of the Directors of the Company in office since the beginning of the financial year to the date of this report are:

Mr Norman Ka Cheung Ip (Chairman)
Mr Tan Yam Pin
Mr Koh Poh Tiong
Mr Khor Hock Seng
Y Bhg Datuk Kamaruddin bin Taib (Stepped down on 28 February 2019)
Y Bhg Dato' Yeoh Beow Tit (Stepped down on 20 March 2019)
Mr Ng Hon Soon
Mdm Tan Fong Sang
Mr David Siew Kah Toong (Appointed on 1 March 2019)

In accordance with Article 66 of the Company's Constitution, Mr Tan Yam Pin and Mdm Tan Fong Sang would retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 70 of the Company's Constitution, Mr David Siew Kah Toong would retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-appointment.

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DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the options over shares in the Company's ultimate holding company as disclosed in this report.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Note 24(b) and 31(b) to the financial statements) by reason of a contract made by the Company or a related corporation with any 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 required to be disclosed under Fifth Schedule, Part 1 Section 3 of the Companies Act, 2016.

A Director and officer's liability insurance has been entered into by Great Eastern Capital (Malaysia) Sdn Bhd ("GEC") on behalf of all the directors and officers within the GEC Group for the financial year ended 31 December 2018 pursuant to Section 289 of the Companies Act 2016. The cost of insurance effected amounted to RM117,156.

DIRECTORS' INTERESTS

According to the register of Directors’ shareholdings, the interests of Directors in office at the end of the financial year in shares and options over shares in the Company's ultimate holding company, Oversea-Chinese Banking Corporation Limited ("OCBC Bank") during the financial year were as follows:

	Shareholdings in which Directors have a direct interest			
	1.1.2018	**Acquired**	**Disposed**	**31.12.2018**
(a) Ordinary shares in the capital of OCBC Bank				
Mr Norman Ka Cheung Ip	4,201	83	-	4,284
Mr Khor Hock Seng	264,380	122,859	-	387,239
Y Bhg Dato' Yeoh Beow Tit	306,736	5,650	(20,000)	292,386
Mdm Tan Fong Sang	37,936	-	-	37,936

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DIRECTORS' INTERESTS (CONT'D.)

	Shareholdings in which Directors are deemed to have an interest			
	1.1.2018	**Granted**	**Vested**	**31.12.2018**
Mr Khor Hock Seng	219,148	61,710	(122,859)(1)	157,999(2)

Notes:

(1) *Deemed interest from Remuneration Trust released annually on 31 March 2016 to 2018.*

(2) *Deemed interest arising from OCBC Deferred Share Plan is 157,999.*

	Shareholdings in which Directors have a direct interest			
	1.1.2018	**Acquired**	**Disposed**	**31.12.2018**
(b) 5.1% non cumulative non convertible Preference Shares in OCBC Capital Corporation (2008)				
Mr Tan Yam Pin	2,000	-	-	2,000

			Options held by Directors in their own name			
	Expiry Date	**Exercise Price S$**	**1.1.2018**	**Granted**	**Exercised**	**31.12.2018**
(c) Options to subscribe for ordinary shares in the capital of OCBC Bank						
Mr Khor Hock Seng	22.3.2027	9.60	327,082	-	-	327,082
	21.3.2028	13.34	-	122,135	-	122,135
Mdm Tan Fong Sang	14.3.2020	8.52	10,283	-	-	10,283
	13.3.2021	9.09	9,113	-	-	9,113
	13.3.2022	8.56	10,079	-	-	10,079

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

CORPORATE GOVERNANCE DISCLOSURES

The Company has taken concerted steps to comply with Bank Negara Malaysia's ("BNM") Policy Document on Corporate Governance issued on 3 August 2016. The Company is committed to the standards and practices prescribed in this policy document.

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OTHER STATUTORY INFORMATION

(a) Before the balance sheet, income statement and statement of comprehensive income of the Company were made out, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts;

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

(i) it necessary to write-off any bad debts or the amount of provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and

(ii) the values attributed to current assets in the financial statements of the Company misleading.

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

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

(e) As at the date of this report, there does not exist:

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

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

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OTHER STATUTORY INFORMATION (CONT'D.)

(f) In the opinion of the Directors:

(i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations as and when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

(g) Before the balance sheet and income statement of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation method specified in Part D of the Risk-Based Capital Framework for insurers issued by BNM.

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

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office. Details of Auditor's remuneration for their services as auditors are disclosed in Note 24 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 26 March 2019.

Ng Hon Soon
Kuala Lumpur

Tan Fong Sang

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CORPORATE GOVERNANCE DISCLOSURES (as referred to in the Directors' Report)

The Board of Directors (the "Board") and Management of Great Eastern Life Assurance (Malaysia) Berhad (the "Company") place great importance on high standards of corporate conduct and are committed to upholding values of integrity, honesty and proper corporate conduct at all times in the business operations and dealings of the Company.

The Company adopts corporate governance practices which are in conformity with Bank Negara Malaysia ("BNM") Policy Document on Corporate Governance issued on 3 August 2016 (the "CG PD") and is continually enhancing its standards of the overall governance.

THE BOARD'S CONDUCT OF AFFAIRS

Board's responsibilities and accountability

1. The Board provides strategic directions to, and oversight of the operations of the Company. The principal roles and functions of the Board, as set out in the Board Charter include the following:

   (a) reviewing and approving the overall business strategy as well as the organisation structure of the Company, developed and recommended by the Management;

   (b) overseeing and approving the risk appetite of the Company that is consistent with the strategic intent, operating environment, effective internal controls, capital sufficiency and regulatory standards;

   (c) ensuring that the decisions and investments are consistent with the long-term strategic goals of the Company and reasonable standards of fair dealing with all stakeholders;

   (d) ensuring that interests of shareholders, policyholders and other stakeholders are taken into account in managing the Company's business;

   (e) overseeing through the Board Nominations and Remuneration Committee, the selection, performance, remuneration and succession plans of the Chief Executive Officer ("CEO"), Senior Officers and Non-Senior Officers, such that the Board is satisfied with the collective competence of Senior Officers to effectively lead the operations of the Company;

   (f) ensuring that the necessary human resources are in place for the Company to achieve its objectives;

   (g) overseeing the implementation of the Company's governance and internal control frameworks, and periodically reviewing the frameworks to ensure they remain appropriate in light of material changes to the size, nature and complexity of the Company's operations;

   (h) ensuring that the Company is operated in accordance with the relevant laws and regulations, as well as policies, processes and guidelines approved by the Board, so as to preserve its financial integrity;

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THE BOARD'S CONDUCT OF AFFAIRS (CONT'D.)

Board responsibilities and accountability (Cont'd.)

1. The Board provides strategic directions to, and oversight of the operations of the Company. The principal roles and functions of the Board, as set out in the Board Charter include the following: (Cont'd.)

    (i) overseeing through the Board Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures, and system of internal controls;

    (j) overseeing, through the Board Risk Management Committee, the establishment and operation of an independent risk management system for managing risks on an enterprise-wide basis, the adequacy of the risk management function (including ensuring that it is sufficiently resourced to monitor risk by the various risk categories and that it has appropriate independent reporting lines), and the quality of the risk management processes and systems;

    (k) reviewing and approving any transaction for the acquisition or disposal of assets that is material to the Company;

    (l) establishing corporate values and standards, emphasizing integrity, honesty and proper conduct at all times, with respect to internal dealings and external transactions, including situations where there are potential conflicts of interest;

    (m) promoting sustainability through appropriate environmental, social and governance considerations in the Company's business strategies;

    (n) overseeing and approving the recovery and resolution as well as business continuity plans for the Company to restore its financial strength, and to maintain or preserve critical operations and services when they come under stress; and

    (o) promoting timely and effective communications between the Company and BNM on matters affecting or that may affect the safety and soundness of the Company.

2. The Company has adopted internal guidelines on matters which require Board approval. Matters requiring Board approval include but are not limited to the overall business strategy and direction, significant policies governing the operations of the Company, strategic or significant acquisitions and disposal of assets by the Company, corporate restructuring, major corporate initiatives and other activities of a significant nature, dividend policy and dividend declaration, all material and special related party transactions, authority levels for the Company's core functions and outsourcing of core business functions.

3. The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to the Board Committees and Management to optimise operational efficiency.

THE BOARD'S CONDUCT OF AFFAIRS (CONT'D.)

Board Committees

4. The Board has established a number of Board committees ("Board Committees") to assist it in carrying out effective oversight of the operations and business affairs of the Company. These Board Committees consist of the Board Nominations and Remuneration Committee, Board Audit Committee and Board Risk Management Committee. All the Board Committees have been constituted with clear Board-approved terms of reference.

5. The Company's Board Committees, in carrying out their responsibilities in accordance with their respective terms of reference, are also actively involved in assisting the Board to ensure compliance with good corporate governance practices by the Company. Details of the principal roles and responsibilities of the Board Committees are set out in relevant sections on the respective Board Committees herein. Minutes of all Board Committees meetings, which provide fair and accurate record of the discussions, key deliberations and decisions taken during the meetings, are maintained, and are circulated to the Board.

Meetings and Directors' Attendance

6. The Board meets regularly during the year to review the business performance and key activities of the Company, and to consider business proposals presented by the Management. All members of the Board participate actively in Board discussions and decisions are taken objectively in the interests of the Company. The Board guides Management with strategic directions to achieve its stated goals and the Management remains accountable to the Board. Where warranted by particular circumstances, ad hoc Board or Board Committee meetings will be convened. In 2018, the Board convened six scheduled and three ad hoc Board meetings as well as organised one Board Retreat.

7. Meetings of the Board and Board Committees via telephone or video conference are permitted by the Company's Constitution. Director who is unable to attend any Board or Board Committee meeting will still be provided with all meeting papers for information. Directors are equipped with electronic tablets that allow secured access to Board and Board Committee meeting materials.

8. All Directors have complied with the minimum 75% meeting attendance requirement at Board meetings as stipulated in the CG PD and Board Charter.

9. The number of meetings of the Board and Board Committees held in 2018 and the attendance of the Directors at those meetings are tabulated below:

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THE BOARD'S CONDUCT OF AFFAIRS (CONT'D.)

Directors' attendance at Board and Board Committee meetings in 2018

Name of Director	Board				Board Nominations and Remuneration Committee	
	No. of Meetings				No. of Meetings	
	Scheduled		Ad hoc		Scheduled	
	Held	Attended	Held	Attended	Held	Attended
Mr Norman Ka Cheung Ip	6	6	3	3	6	6
Mr Tan Yam Pin	6	6	3	3	6	6
Mr Koh Poh Tiong	6	5	3	3	4(1)	4(1)
Mr Khor Hock Seng	6	6	3	3	6(1)	6(1)
Y Bhg Datuk Kamaruddin bin Taib	6	6	3	2	6	6
Y Bhg Dato' Yeoh Beow Tit	6	6	3	3	6	6
Mr Ng Hon Soon	6	6	3	3	6	6
Mdm Tan Fong Sang	6	6	3	3	5(1)	5(1)

Name of Director	Board Audit Committee				Board Risk Management Committee	
	No. of Meetings				No. of Meetings	
	Scheduled		Ad hoc		Scheduled	
	Held	Attended	Held	Attended	Held	Attended
Mr Norman Ka Cheung Ip	1(1)	1(1)	-	-	-	-
Mr Tan Yam Pin	2(1)	2(1)	-	-	-	-
Mr Koh Poh Tiong	2(1)	2(1)	-	-	-	-
Mr Khor Hock Seng	4(1)	4(1)	1(1)	1(1)	-	-
Y Bhg Datuk Kamaruddin bin Taib	6	6	2	2	-	-
Y Bhg Dato' Yeoh Beow Tit	6	6	2	2	5	5
Mr Ng Hon Soon	2(1)	2(1)	-	-	5	5
Mdm Tan Fong Sang	6	6	2	2	5	5

Notes:
(1) Attendance by Invitation.

(-) Not applicable to the Non-Member of the respective Board Committees.

Directors' attendance at the Annual General Meeting of the Company on 17 April 2018 and at the Board Retreat on 7 September 2018 is not included in the above table.

There was 1 Joint Board Audit Committee – Board Risk Management Committee meeting held on 23 January 2018. Directors' attendance at the meeting is not included in the above table.

The number of meetings indicated in "Held" above reflects the number of meetings held during the time the respective Directors held office.

BOARD COMPOSITION AND GUIDANCE

Board Membership

10. The Company's Board of Directors during the financial year comprised an Independent Chairman, Mr Norman Ka Cheung Ip, six other non-executive Directors and one Executive Director. The six non-executive Directors are Mr Tan Yam Pin, Mr Koh Poh Tiong, Y Bhg Datuk Kamaruddin bin Taib, Y Bhg Dato' Yeoh Beow Tit, Mr Ng Hon Soon and Mdm Tan Fong Sang. Mr Khor Hock Seng is the Executive Director.

11. Mr Norman Ka Cheung Ip and Y Bhg Datuk Kamaruddin bin Taib retired by rotation and were re-elected to the Board at the Company's Annual General Meeting on 17 April 2018 pursuant to Article 66 of the Company's Constitution.

12. Mr Koh Poh Tiong was appointed to the Board on 1 October 2017 and was re-appointed to the Board at the Company's Annual General Meeting on 17 April 2018 pursuant to Article 70 of the Company's Constitution.

13. Further, all appointments and re-appointments of Directors of the Company are subject to the approval of BNM. The composition of the Board during the financial year 2018 is as follows:

Members of the Board	**Status of directorship**
Mr Norman Ka Cheung Ip, Chairman	Independent Director
Mr Tan Yam Pin	Independent Director
Mr Koh Poh Tiong	Independent Director
Mr Khor Hock Seng	Executive Director
Y Bhg Datuk Kamaruddin bin Taib	Independent Director
Y Bhg Dato' Yeoh Beow Tit	Non-Independent Non-Executive Director
Mr Ng Hon Soon	Independent Director
Mdm Tan Fong Sang	Independent Director

14. The Directors of the Company have confirmed that they are not active politicians as defined in the CG PD. Further, they have no prior involvement as an external auditor for the Company; nor served in the capacity of an officer who is directly involved in the Company's engagement or partner of the external auditor firm; nor served as an auditor of the Company for the past 2 years. The Directors made such confirmation to BNM prior to their respective appointment as Director.

Key Information on Directors

15. Key information on each Director's professional qualifications and background is set out under the sections "Board of Directors" and "Further Information on Directors" of the Company's Annual Report[1]. The Directors' membership in the various Board Committees is also set out herein. Directors' interests in shares and share options in the Company's ultimate holding company, OCBC Bank are disclosed in the Directors' Report that accompanies the Company's financial statements for the financial year ended 31 December 2018 ("FY2018"). The Directors do not hold any shares in the Company or its penultimate holding company, Great Eastern Holdings Limited ("GEH").

Notes:

[1] Available at the Company's website.

BOARD COMPOSITION AND GUIDANCE (CONT'D.)

Board Composition and Independence

16. The Company determines the independence of its Directors in accordance with the requirements under the CG PD. Under the CG PD, the Board will determine whether an individual to be appointed as an Independent Director is independent in character and judgment, and free from associations or circumstances that may impair the exercise of his/her independent judgment. An Independent Director of the Company must be one who himself or any person linked to him is independent from Management, the substantial shareholders of the Company or any of its affiliates, and has no significant business or other contractual relationship with the Company or any of its affiliates within the last two years; and has not served for more than nine years on the Board[2].

17. The CG PD emphasizes on the requirement of having a majority of Independent Directors[3].

18. The current Board comprises a majority of Independent Directors as determined by the Board Nominations and Remuneration Committee annually, pursuant to the definition of "independence" of a Director under the CG PD. The Company's Independent Directors are currently Mr Norman Ka Cheung Ip, Mr Tan Yam Pin, Mr Koh Poh Tiong, Y Bhg Datuk Kamaruddin bin Taib, Mr Ng Hon Soon and Mdm Tan Fong Sang.

19. Under the CG PD, Y Bhg Dato' Yeoh Beow Tit is deemed non-independent as he has served for more than nine years on the Board. However, he remains independent from Management, the substantial shareholders of the Company or any of its affiliates, and has no significant business or other contractual relationship with the Company and its affiliates.

20. Mr Khor Hock Seng is an Executive Director as he is the Group Chief Executive Officer of GEH.

21. The current Board complies with the CG PD requirements on Board independence. Six out of eight of the Board members are independent Directors.

22. The Board, through its Board Nominations and Remuneration Committee, is of the view that the current Board size is appropriate to facilitate effective decision making, taking into account the scope and nature of the operations of the Company.

23. Further, the Board Nominations and Remuneration Committee also assesses the diversity of its members competency profiles, and determines the collective skills required to discharge its responsibilities effectively.

Notes:

[2] CG PD provides for tenure limits of independent directors to generally not exceed nine years except under exceptional circumstances or as part of the transitional arrangement.

[3] Transitional arrangements are allowed for Independent Directors to make up at least half of the board membership by 3 August 2019 and Independent Directors to make up a majority of the board membership by 3 August 2021.

BOARD COMPOSITION AND GUIDANCE (CONT'D.)

Board Composition and Independence (Cont'd.)

24. The Board members of the Company have diverse backgrounds and qualifications, and bring a wide range of financial and commercial experience to the Board. Collectively, they provide the necessary business acumen, knowledge, capabilities and core competencies to the Company, including industry knowledge in insurance, investment and asset management, banking, accounting, finance, strategy formulation, management experience, risk management and familiarity with regulatory requirements. The diversity of experience and competencies of the Directors enhance the effectiveness of the Board in discharging its responsibilities. Directors who serve on the Board Committees have an appropriate mix of skills and capabilities, taking into account the skill set required for the Board Committees to perform their respective roles and responsibilities.

25. With the knowledge, objectivity and balance contributed by the non-executive Directors, the Board constructively challenges and enhances proposals on strategy, reviews the performance of Management against agreed goals and objectives, and monitors the reporting of performances.

CHAIRMAN AND CEO

26. The roles of the Chairman, Mr Norman Ka Cheung Ip, and the CEO, Y Bhg Dato Koh Yaw Hui, are distinct and separate, with clear division of responsibilities between them to ensure an appropriate balance of power, increased accountability and greater independence in decision making. The Chairman and the CEO are not related to each other.

27. The principal responsibilities of the Chairman include leading the Board to ensure it effectively discharges its roles and responsibilities, approving agendas of the Board meetings, monitoring the quality and timeliness of the flow of information from Management to the Board and promoting effective communication with shareholders. The Chairman also facilitates robust discussions and deliberations in Board meetings, encourages constructive relations between the Board and Management, and promotes high standards of corporate governance with the full support of the other Directors, the Company Secretary and Management. He also leads efforts to address the Board’s developmental needs.

28. The CEO manages the Company and oversees the Company’s operations and implementation of the Company’s strategies, plans and policies to achieve planned corporate performance and financial goals. His management of the Company’s businesses, including implementing the Board’s decisions, is carried out with the assistance of the Senior Officers of the Company. Collectively, they are responsible for the day-to-day operations and administration of the Company, ensuring, inter alia, operational and organisational efficiency, profitable performance, regulatory compliance, good corporate governance and effective risk management.

BOARD NOMINATIONS AND REMUNERATION COMMITTEE

29. The CG PD requires the Board Nominations and Remuneration Committee to have at least three non-executive Directors, with necessary skills, knowledge and experience relevant to the responsibilities of the committee. The committee is required to comprise at least a majority of Independent Directors and be chaired by an Independent Director, who is not the Chairman of the Company.

30. For FY2018, The Board Nominations and Remuneration Committee comprised the following Directors:

    - Mr Tan Yam Pin, Chairman
    - Mr Norman Ka Cheung Ip, Member
    - Y Bhg Datuk Kamaruddin bin Taib, Member
    - Y Bhg Dato' Yeoh Beow Tit, Member
    - Mr Ng Hon Soon, Member

31. The responsibilities of the Board Nominations and Remuneration Committee are set out in its Board-approved terms of reference, amongst others the responsibilities include identifying, reviewing and recommending candidates for nominations and recommending the re-appointment of Directors on the Board and Board Committees. It also reviews and recommends nominations of Senior Officers positions in the Company to the Board.

32. The Board Nominations and Remuneration Committee held a total of six meetings in 2018.

Process for Appointment of New Directors

33. The Board Nominations and Remuneration Committee has a key role in carrying out the formal and transparent process established for the appointment and re-appointment of Directors to the Board. Proposals for the appointment of new Directors are reviewed by the Board Nominations and Remuneration Committee. The Board Nominations and Remuneration Committee meets with the candidates to assess their suitability and commitment. Amongst others, the Board Nominations and Remuneration Committee takes into consideration the candidate's professional qualifications, integrity, financial and commercial business experience, and expertise relevant to the Company, as well as his/her potential to contribute to the effectiveness of the Board and to complement the skills, knowledge and expertise of the Board. Competent individuals are nominated for the Board's consideration, before submitting the application to BNM for approval.

34. In addition, the Board Nominations and Remuneration Committee further determines the proposed candidate's independence status under the CG PD, and ensures that the proposed candidate will satisfy the criteria under the CG PD in that his/her appointment will not result in non-compliance with any of the composition requirements for the Board and Board Committees, and that he/she is a fit and proper person for the office, taking into account his/her track record, age, experience, capabilities, skills and other relevant factors as may be determined by the Board Nominations and Remuneration Committee. Similar checks are also conducted on an annual basis to ensure that each Director remains qualified for the office based on the above criteria.

BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Re-appointment/Re-election of Directors

35. All Directors subject themselves for re-appointment and/or re-election upon the expiry of their BNM Appointment Term or by rotation at the Annual General Meeting of the Company pursuant to the Company's Constitution, where applicable. The Board Nominations and Remuneration Committee is responsible to recommend the re-appointment and/or re-election of Directors to the Board, taking into account the comprehensive evaluation of the Directors in addition to the Directors' attendance at meetings, their expertise, knowledge, commitment, and contributions to Board discussions and to the overall effectiveness of the Board.

Board Orientation and Training

36. Upon the appointment of a new Director, a formal appointment letter will be issued together with a Director's Orientation Kit which will include key information on the Company, the terms of reference of the Board and Board Committees, duties and obligations of Directors as well as relevant rules and regulations. As part of the induction programme for new Directors, the Senior Officers will conduct presentation sessions for new Directors on the Company's principal activities, business operations, staff strengths, and applicable rules and regulations. The Company constantly reviews and improves on the contents of such briefings to new Directors to take into account any new legislative changes which affect the Directors and to enable them to have a more comprehensive understanding of the Company, the insurance business and practices and the Company's financial statements.

37. The Board Nominations and Remuneration Committee ensures there is a professional development programme for all Directors, so that they are equipped with the appropriate skills and knowledge to perform their roles on the Board and Board Committees effectively. The Directors are continually updated on developments affecting the insurance industry. The Company facilitates the attendance of the first-time Directors in completing the mandatory "Financial Institutions Directors' Education ("FIDE") Core Programme within the year from their date of appointment. From time to time, the Company organises talks, seminars or presentations by external professionals, consultants or Management staff on topics relevant to the insurance industry and provides updates on developments in the industry locally. Industry-related and topical articles are regularly circulated to Directors as part of the Company's continuous development programme for Directors. Continued training and development programmes for Directors are more flexible and Directors may attend appropriate courses, conferences and seminars conducted by professional bodies within the industry or other professional organisations including programmes conducted by the FIDE FORUM, where relevant. The Company has dedicated sufficient resources towards the on-going development of its directors and also maintains formal records of the training and development received by its Directors.

BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Board Orientation and Training (Cont'd.)

38. During the financial year, the Directors, collectively or on their own, attended seminars, courses and briefing organised by professional bodies and regulatory authorities as well as those conducted in-house, included the following:

- 1st PIDM – FIDE FORUM Annual Dialogue
- 5th BNM – FIDE FORUM Annual Dialogue
- Blockchain in Financial Services by BNM
- BNM FIDE FORUM Board Conversation (Insurance Companies & Takaful Operators)
- BNM-FIDE FORUM Board Conversations; Dialogue with Senior Officials of BNM (Session with Directors of Insurance Companies & Takaful Operators)
- Board Educational Series: Workshop on Risk Culture by Ernst & Young, Singapore
- Board Educational Series: Update on Anti Money Laundering; Risk Culture Report by Ernst & Young; and Directors' & Officers' Liability Insurance by Jardine Lloyd Thompson
- Board Educational Series: Digital Transformation Strategy for Great Eastern Group; and Reinsurance as Capital Management by Munich RE
- Board Educational Series: Preparing for SST- Managing the Transition
- Credit Risk Management – Banking Sector
- Exclusive session for FIDE FORUM Members: IBM Think Malaysia
- FIDE Core Programme – Module A & B
- FIDE FORUM Workshop – Identifying your next Board Talent
- FIDE FORUM – Fintech: Disruption to be Embraced?(Demo Day and Dialogue with 10 Fintech Companies)
- FIDE FORUM - Preparation for the "Board Conversation"
- Focus Group (Insurance & Takaful) – Discussion in Preparation for the 5th BNM – FIDE FORUM Annual Dialogue with the Governor
- Win the innovation race: Unlocking the creative power of Asians

Board Performance

39. The Board has an annual performance evaluation process, carried out by the Board Nominations and Remuneration Committee, to assess the effectiveness of the Board, Board Committees and each Director's contributions. This annual assessment process consists principally of evaluation by and feedback from each Director. Each Director evaluates the performance of the Board and Board Committees. The assessment of the contributions of individual directors to the effectiveness of the Board is also performed annually. Such assessments are made against established performance criteria consistent with those approved by the Board and used in the previous year. The 2018 Board Evaluation questionnaire focused on areas such as competency and independence, information quality and timeliness, conduct of meetings, corporate social responsibility, managing performance, succession planning, Directors development, internal controls and risk management as well as Board Committees. An external consultant is engaged to facilitate the process, provide industry benchmarks and maintain confidentiality of results.

BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Board Performance (Cont'd.)

40. The purpose of the evaluation is to increase the overall effectiveness of the Board. The Board has found the evaluation process useful and constructive since its implementation several years ago. This collective process has also provided an opportunity to obtain insightful feedback from each Director on suggestions to enhance the effectiveness of the Board.

41. Directors are expected to set aside adequate time for their oversight of matters relating to the Company. The Directors provide declarations of changes in their other appointments which are disseminated to all Board members. The Company has established guidelines on meeting attendance and the extent of other appointments outside the Company that a Director may assume. Generally, a Director who has full-time employment in any organisation shall have appointments in no more than four listed companies and fifteen unlisted companies, while a Director who does not have any full-time employment shall have appointments in no more than seven listed companies and fifteen unlisted companies. The Board Nominations and Remuneration Committee annually assesses each Director's attendance record.

Conflicts of Interest

42. The Company has implemented a Directors' Conflict of Interest ("COI") Guide which sets out the procedures to address actual and potential conflicts of interest of the Directors. The COI Guide serves to safeguard against the risk that a Director's decision may be unduly influenced by other secondary interests, instead of the interests of the Company. Pursuant to the COI Guide, the Directors of the Company shall disclose to the Board the nature and extent of such Director's interest whether directly or indirectly, in a material transaction or material arrangement with the Company.

Appointment and Performance of Senior Officers

43. The Board Nominations and Remuneration Committee also recommends and assesses the nominee for the position of CEO and re-appointment of CEO as well as oversees the appointment and succession planning of the Senior Officers of the Company.

44. Additionally, it is responsible to oversee performance evaluation of CEO and Senior Officers. Whenever applicable and consistent with the prescribed internal Remuneration Framework, the Board Nominations and Remuneration Committee's recommendations on the CEO and Senior Officers would be made in consultation with the input from the Board Audit Committee and Board Risk Management Committee.

GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
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BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Appointment and Performance of Senior Officers (Cont'd.)

45. Further, the Board Nominations and Remuneration Committee is responsible to ensure all Key Responsible Persons ("KRPs") fulfil the fit and proper requirements, in line with the Fit and Proper Policy for KRPs.

Procedures for Developing Remuneration Policies, Level and Mix of Remuneration and Disclosure on Remuneration

46. The Board Nominations and Remuneration Committee ensures that the Company implements formal and transparent procedures for developing policies on executive remuneration and for determining the remuneration packages of individual Directors and Senior Officers.

47. It is also responsible to recommend to the Board, Policy on Remuneration for Directors, CEO and Senior Officers; and its review thereof from time to time. This will ensure that the Company remains competitive along with the industry and is able to attract, retain and motivate the calibre needed to manage the Company successfully, while at the same time satisfying itself that the remuneration packages are not excessive, and consistent with the prudent management of the Company's affairs.

Remuneration of Non-Executive Directors

48. The non-executive Directors are paid Directors' fees, which take into account factors such as the Directors' contributions, effort and time spent, attendance at meetings and frequency of meetings, the respective responsibilities of the Directors including the Board Committees on which they serve, market practices and the need to pay competitive fees to attract, retain and motivate Directors. No Director is involved in deciding his/her own remuneration.

49. The Board Nominations and Remuneration Committee performs an annual review of the fee structure for Directors' fees and of the computation of the aggregate Directors' fees based on the Board-approved fee structure. The Directors' fees proposed by the Board each year are subject to the shareholders' approval at the Company's Annual General Meeting.

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BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Remuneration of Non-Executive Directors (Cont'd.)

50. The Board has considered the market practices for non-executive Director remuneration, and has decided to use the same fee structure for computing the fee for each non-executive Director for the FY2018 as that used in the previous financial year (in the table set out below):

		Annual Retainer
Board	Chairman	RM130,000
	Member	RM65,000
Board Committee	Chairman: • Board Audit Committee • Board Risk Management Committee	RM50,900
	Member: • Board Audit Committee • Board Risk Management Committee	RM25,400
	Chairman: • Board Nominations and Remuneration Committee	RM45,000
	Member: • Board Nominations and Remuneration Committee	RM27,000
Attendance fees per Board or Board Committee meeting		RM2,600

Attendance fees are paid to non-executive Directors to recognise their contributions and time spent in attending meetings.

Disclosure of Directors' and CEO Remuneration

51. The total Directors' Remuneration from the Company in respect of FY2018 is shown under Note 24(b) in the Company's financial statements. Fees for Non-Executive Directors totaling RM1,345,600.00 in respect of FY2018 will be approved at the forthcoming Annual General Meeting of the Company. The Directors' and CEO's Remuneration for FY2018 are disclosed under Note 24(b) in the Company's financial statements.

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BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Remuneration Policy in respect of Senior Officers and Other Material Risk Takers of the Company

52. The objective of the Company's remuneration policy is to attract, motivate, reward and retain quality personnel. The remuneration policy is approved by the Board and is subject to annual review taking into account changes in the remuneration practices and/or regulator's requirements from time to time.

53. The remuneration of the CEO and the respective Senior Officers of the Company are reviewed annually by the Board Nominations and Remuneration Committee, based on the overall remuneration framework approved by the Board. Senior Officers comprises the Senior Management Team and such other executives as the Board of Directors and/or regulator should determine. Currently, there are fifteen identified Senior Officers.

54. Staff engaged in all control functions including Compliance, Risk, Actuarial, Audit and others do not carry business profit targets in their goal sheets and hence are compensated independent of the business profit achievements. Their compensation is dependent on the achievement of key results in their respective domain.

55. Besides the Senior Officers, the Company has identified another key segment of officers; i.e. Other Material Risk Takers. Other Material Risk Takers is defined to include an officer who can materially commit or control significant amounts of the Company's resources or whose actions are likely to have a significant impact on the Company's risk profile. There are five identified Other Material Risk Takers who are subject to risk control Key Performance Indicators and risk adjusted variable compensation commencing from FY2017.

56. The basic component of the remuneration package comprises a monthly basic salary. The variable components have been designed to link rewards to corporate and individual performance, based on appropriate and meaningful performance measures set up by the Company, and approved by the Board Nominations and Remuneration Committee and the Board. Such components comprise a performance-based variable compensation (refers to cash, deferred shares and share options), which are generally paid/awarded once a year. All deferred components will be in the form of deferred shares from the 2019 grants onward. Senior Officers are subject to an additional performance measurement approach by embedding corporate governance indicator for more prudent risk taking.

57. In such annual remuneration reviews, the Board Nominations and Remuneration Committee takes into consideration factors such as market competitiveness and market benchmark, and that the remuneration packages commensurate with individual performance and contribution. The Board Nominations and Remuneration Committee also takes into account the time horizon of risks, such as ensuring that variable compensation payments shall not be fully paid over short periods when risks are realised over longer periods.

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BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Remuneration Policy in respect of Senior Officers and Other Material Risk Takers of the Company (Cont'd.)

58. The Board Nominations and Remuneration Committee reviews the annual budget for salary increment, performance-related variable compensation, before submitting their recommendation to the Board for approval. The competitiveness of the Company’s compensation structure is reviewed annually, relative to a peer group of companies that is considered to be relevant for benchmarking purposes to ensure continued appropriateness. The review is done through comparison to data source from various remuneration surveys conducted independently by remuneration consultants.

59. As a consequence of the financial crisis in recent years, financial institutions globally have been reviewing compensation practices to reduce incentives that encourage excessive risk taking. While the Company has adopted compensation practices that take into account the principles and implementation standards issued by the Financial Stability Forum for Sound Compensation Practices, it also continues to review its compensation practices on an ongoing basis to further ensure that decisions made are conducive to sustain business performance. In its deliberations, the Board Nominations and Remuneration Committee also takes into account the remuneration principles, practices and standards issued by the regulator from time to time.

60. Senior Officers and Other Material Risk Takers through annual self-declaration commit not to undertake activities (such as personal hedging strategies and liability-related insurance) that will undermine the risk alignment effects embedded in their remuneration.

61. In collaboration with the Board Nominations and Remuneration Committee, the Company has designed and developed its Performance Assessment and Remuneration Framework, which takes into consideration the prevailing regulatory requirements, and with the input from the Senior Officers. The Performance Assessment and Remuneration Framework is independently reviewed by the Board Audit Committee and Board Risk Management Committee. The Board Risk Management Committee may with the assistance of Risk Management Department assess how the Performance Assessment and Remuneration Framework affects the Company’s risk profile.

62. The Company’s variable compensation varies in line with its financial performance and the meeting of corporate governance requirements.

63. The Company does not have any share option scheme or share plan in place. Instead, the Company’s ultimate holding company, OCBC Bank, awards shares pursuant to the OCBC Deferred Share Plan to selected senior executives of the Company. There are current malus provisions in the OCBC Deferred Share Plan where the Group Remuneration Committee has the discretion to cancel all or part of the unvested deferred share.

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BOARD NOMINATIONS AND REMUNERATION COMMITTEE (CONT'D.)

Remuneration Policy in respect of Senior Officers and Other Material Risk Takers of the Company (Cont'd.)

64. A significant proportion of the Senior Officers' and Other Material Risk Takers' compensation may be deferred under deferral arrangements over a period of years and the deferred amount increases with the seniority/rank and bonus amount. The cash bonus paid to the Senior Officers and Other Material Risk Takers is subject to claw back by the Company. If, at any time before the date (the Cut-Off Date) falling 6 years after the date of payment of the cash bonus, the Company determines, in its absolute discretion, that any events set out in the OCBC Deferred Share Plan occurs, the Company has the discretion to elect to claw back part or all of the amount of the cash bonus paid to the Senior Officers and Other Material Risk Takers. Details of the remuneration granted to the eligible executives are disclosed in table below.

65. Total value of remuneration awards for FY2018 are as follows:

	Unrestricted		**Deferred**	
	No. of pax	**RM**	**No. of pax**	**Units**
Fixed remuneration				
- Cash-based	16	8,956,730	-	-
- Other	2	46,154	-	-
Variable remuneration				
- Cash-based	16	3,481,741	13	-
- Shares and share-linked instruments	13	2,623,231	-	129,342 units (Deferred Share, Share Option and Employee Share Purchase Plan)
- Other*	16	2,102,667	-	-

*Include Senior Officers and Head of Compliance.

ACCESS TO INFORMATION

66. The Board members are provided with relevant and timely information by Management on matters to be discussed or considered at meetings of the Board and Board Committees. For matters requiring approval, information furnished by Management usually includes background explanatory information, relevant facts and/or analysis to support the proposal, implications or merits of the case, risk analysis and mitigating strategies, the budget (if applicable) and Management's recommendation. The Senior Officers who are responsible to provide additional information and insight or provide clarifications to queries raised are usually present at the meeting for discussion on such matters. Occasionally, external consultants engaged on specific projects may also be invited to brief the Board or Board Committees, where relevant. All Board and Board Committees' members have unfettered access to information which the Company is in possession of or has access to, for the purpose of carrying out their responsibilities.

ACCESS TO INFORMATION (CONT'D.)

67. Directors have separate and independent access to the Company Secretary and to Senior Officers of the Company at all times.

68. The Company Secretary attends all Board meetings, prepares minutes of Board proceedings, and assists the Chairman to ensure that appropriate Board procedures and applicable regulations are complied with. Under the direction of the Chairman, the Company Secretary ensures good information flows within the Board and Board Committees and between Senior Officers and Directors. The Company Secretary also facilitates the orientation of new Directors and professional development of Directors, as required. The appointment and removal of Company Secretary is considered to be a matter for the Board as a whole.

69. The Directors may take independent professional advice as and when necessary to enable them to discharge their duties effectively. Similarly, the Board and Board Committees may obtain the professional advice, whenever necessary and appropriate, so as to effectively discharge their roles and responsibilities.

BOARD AUDIT COMMITTEE

70. The CG PD requires the Board Audit Committee to have at least three non-executive directors, with necessary skills, knowledge and experience relevant to the responsibilities of the committee. The committee is required to comprise at least a majority of Independent Directors and be chaired by an Independent Director, who is not the Chairman of the Company.

71. For FY2018, the Board Audit Committee comprised the following Directors:

    - Y Bhg Datuk Kamaruddin bin Taib, Chairman
    - Y Bhg Dato' Yeoh Beow Tit, Member
    - Mdm Tan Fong Sang, Member

72. The functions performed by the Board Audit Committee and details of the Board Audit Committee's activities during FY2018 included the following:

    (a) Reviewed with the Internal Auditors –

        (i) their audit plans, their evaluation of the system of internal controls and their audit reports;

        (ii) the scope and results of the internal audits; and

        (iii) the assistance given by the officers of the Company to the internal auditors.

BOARD AUDIT COMMITTEE (CONT'D.)

72. The functions performed by the Board Audit Committee and details of the Board Audit Committee's activities during FY2018 included the following: (Cont'd.)

    (b) Reviewed with the External Auditors –

        (i) their audit plans prior to the commencement of the annual audit;

        (ii) the interim financial statements and the audited financial statements of the Company for the financial year and the auditors' report thereon for submission to the Board for consideration and approval thereafter;

        (iii) the scope and results of the audit procedures and cost effectiveness, and their independence and objectivity taking into consideration factors including the nature and extent of non-audit services provided by them (if any);

        (iv) the implications and impact of new or proposed changes in financial reporting standards, accounting policies and regulatory requirements on the financial statements together with the Senior Officers;

        (v) any significant financial reporting issues, to ensure the integrity of the financial statements of the Company; and

        (vi) the assistance given by the officers of the Company, including the internal auditors, to the external auditors.

    (c) Reviewed the findings of the internal and external auditors on their reviews of the adequacy and effectiveness of the internal controls of the Company, including financial, operational, compliance and information technology controls and systems established by Management.

    (d) Reviewed the effectiveness of the internal audit function of the Company.

    (e) Maintained an appropriate relationship with both the internal and external auditors, and in separate sessions met at least annually with the Management; internal and external auditors without the presence of Management; to consider any other matters which may be raised privately.

    (f) Reviewed and approved among others, the remuneration and performance evaluation of the Chief Internal Auditor.

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BOARD AUDIT COMMITTEE (CONT'D.)

72. The functions performed by the Board Audit Committee and details of the Board Audit Committee's activities during FY2018 included the following: (Cont'd.)

    (g) Made recommendation to the Board on the re-appointment of the external auditor, their remuneration and terms of engagement.

    (h) Reviewed and updated the Board on all related-party transactions, as well as reviewed the write-off of material and special related-party transactions and recommended to the Board for approval.

    (i) Monitored compliance with the Directors' Conflict of Interest Guide.

73. The Board Audit Committee held a total of eight meetings in 2018, and its members' attendance at these meetings is disclosed herein. The Board Audit Committee meetings were attended by the internal and external auditors (when required), the Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Internal Auditor and certain members of the Senior Officers.

74. The Company has instituted a whistle-blowing policy whereby employees of the Company or any other persons may raise genuine concerns about possible improprieties in matters of financial reporting or other malpractices at the earliest opportunity. Concerns expressed anonymously will be considered and investigated on the basis of their merits. The Board Audit Committee ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action. If fraud is determined, appropriate remedial action will be taken and the Board Audit Committee would be updated regularly on its status. The whistle-blower will have protection against reprisals provided he has acted in good faith. The Board Audit Committee Chairman is responsible for the effective implementation of the whistle-blowing policy which includes evaluating periodic reports that monitor and assess how concerns are escalated and dealt with, and overseeing periodic review of the effectiveness of the policy.

75. The Board Audit Committee has explicit authority to investigate any matters within its terms of reference, has full co-operation of and access to Management, and has resources to enable it to discharge its functions properly. The Board Audit Committee has full discretion to invite any Director or Senior Officers to attend its meetings.

76. The auditors, both internal and external, have unrestricted access to the Board Audit Committee, and to information and such persons within the Company as necessary to conduct the audit.

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INTERNAL AUDIT

77. The internal audit function ("Internal Audit") serves to provide the Board and Management with independent and objective assessments of the adequacy and effectiveness of the governance, risk management and internal control processes as designed and implemented by Management. The Internal Audit Charter is approved by the Board Audit Committee. Internal Audit resides in-house and is independent of the activities it audits.

78. Internal Audit adopts a risk-based approach where audit work is prioritised and scoped according to an assessment of risk exposures, which include financial, strategic, reputational, operational, technology, legal and regulatory risks. The work undertaken by Internal Audit involves the assessment of the adequacy and effectiveness of the Company's risk management and internal control environment, including ascertaining if the internal controls are sufficient in ensuring that significant financial, managerial and operating information is accurate, reliable and timely, operations and programs are effective and efficient, and assets are safeguarded. Reviews conducted by Internal Audit also focus on the Company's compliance with relevant laws and regulations, adherence to established policies and whether Management has taken appropriate measures to address control deficiencies.

BOARD RISK MANAGEMENT COMMITTEE

79. The CG PD requires the Board Risk Management Committee to have at least three non-executive directors, with necessary skills, knowledge and experience relevant to the responsibilities of the committee. The committee is required to comprise at least a majority of Independent Directors and be chaired by an Independent Director, who is not the Chairman of the Company.

80. For FY2018, the Board Risk Management Committee comprised the following Directors:

    - Mr Ng Hon Soon, Chairman
    - Y Bhg Dato' Yeoh Beow Tit, Member
    - Mdm Tan Fong Sang, Member

81. The Board Risk Management Committee is responsible for the oversight of market, credit, liquidity, insurance, operational, technology, regulatory and compliance risks; and any other category of risks as delegated by the Board or as deemed necessary by the committee, to manage the financial and reputational impact arising from these risks. It reviews the overall risk management philosophy, including, the risk profile, risk tolerance level, and risk and capital management strategy, guided by the overall corporate strategy and risk appetite as set and approved by the Board. The Board Risk Management Committee also assists the Board in monitoring the effectiveness and adequacy of the risk management processes and systems set up by the Company.

BOARD RISK MANAGEMENT COMMITTEE (CONT'D.)

82. The Board Risk Management Committee performs its functions pursuant to its Board-approved written terms of reference. Such terms of reference include the review and endorsement or review and approval of (where applicable) frameworks, policies and charters; as well as strategies for effective risk management, investment management and asset-liability management. The terms of reference also include the review of major risk management initiatives, significant investment, property and other financial transactions that exceed the authorisation limits of the Management Committees that the Board Risk Management Committee oversees. Material investment-related activities and transactions are reviewed by the Board Risk Management Committee and recommended to the Board for information or approval, as applicable.

83. The Board Risk Management Committee reviews the appointment, annual performance evaluation, remuneration and termination of the (i) Chief Risk Officer, who reports directly to the Board Risk Management Committee and the CEO, as well as (ii) Head of Compliance; before submitting its recommendation to the Board Nominations and Remuneration Committee for endorsement, and the Board for approval.

84. The Board Risk Management Committee meets with the Chief Risk Officer and the Head of Compliance at least once a year without the presence of Management to discuss matters which may be raised privately.

85. The Risk Management Department has adequate resources and is staffed by experienced and qualified employees who are sufficiently independent to perform their duties objectively. The Risk Management Department regularly engages Senior Officers to develop enterprise-wide risk controls and risk mitigation procedures.

86. The Board Risk Management Committee held a total of five meetings in 2018.

87. The Company's enterprise risk governance, risk management objectives and policies and other pertinent details are disclosed in Note 33 to the financial statements.

INTERNAL CONTROL FRAMEWORK

88. The Board has overall oversight responsibility to ensure that the Company maintains an adequate system of internal controls and is equipped with effective and efficient operations and risk management, as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements to safeguard assets of the Company and stakeholders' interests.

INTERNAL CONTROL FRAMEWORK (CONT'D.)

89. The system of internal controls provides reasonable but not absolute assurance that the Company would not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. In this regard, it is noted that no system of internal controls can provide absolute assurance, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

90. The internal control framework comprises among others, the infrastructure in the form of risk oversight committees at the Board and Management level; frameworks, policies and procedures; risk and compliance self-assessment processes for all business units to assess and manage the adequacy and effectiveness of their systems of internal controls and their level of compliance with applicable rules and regulations; and a monitoring and reporting process.

Infrastructure

91. While the Board is ultimately responsible for the management of risks within the Company, several risk oversight committees have been established over the years to facilitate in depth review of the risks associated with specific aspects of the business such as the Board Risk Management Committee, the Senior Management Team, the Asset Liability Committee, the Information Technology Steering Committee and the Product Development Committee. The duties and scope of work of these committees are documented in their respective terms of reference.

92. The authority delegated by the Board to the Board Committees and the CEO are formalized in the Company's Authority Grid. There are other documents which serve as guidance to the delegation of the CEO's authority such as underwriting limits, claim limits and investment limits.

93. The segregation of duties is paramount in ensuring that members of staff are not assigned with potential conflicting responsibilities, relating to, among others, approvals, disbursements and administration of policies, execution and recording of investment matters, operational and internal audit/compliance functions, underwriting and credit control.

Frameworks, Policies and Procedures

94. The Company has established risk management frameworks and policies that set forth the means by which the Company shall evaluate and manage the risks inherent in the business. The frameworks outline the common risk management process across all risk types within the Company.

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INTERNAL CONTROL FRAMEWORK (CONT'D.)

Frameworks, Policies and Procedures (Cont'd.)

95. A number of policies and procedures have also been put in place to guide and facilitate consistency in application across the board. These cover key areas of risk such as:

- Investments
- Insurance operations
- Information technology and information security
- Fraud and market conduct
- Anti-money laundering and countering the financing of terrorism
- Capital management, capital contingency and stress testing
- Related party and interested party transactions
- Outsourcing
- Reinsurance management
- Business continuity management

96. The frameworks, policies and procedures are reviewed each year to ensure continued relevance and to capture the latest regulatory, statutory and Group requirements. They are then approved by the Board or relevant Board or Management Committees, as appropriate, to formalize their application within the Company.

Self-assessment Process

97. A mature self-assessment process that is supported by the use of the Risk Control Self-assessment and Compliance Requirements Self-assessment tools is entrenched in the Company. The results of the assessment are reviewed by the Senior Officers, who in turn would provide an annual assurance to the CEO on the adequacy and effectiveness of the Company’s operational risk management and internal control systems and in compliance with the relevant statutory and regulatory requirements. Annually, an Own Risk and Solvency Assessment report is submitted to the Board Risk Management Committee to apprise them of the Company’s risk profile, the manner in which the Company determines its solvency and the various measures put in place to ensure that the solvency requirements are met at all times. The said report was also submitted to the Board for information. Commencing from FY2018, this self-assessment process was further supplemented by an assurance report on risk management and internal controls.

Monitoring and Reporting

98. An Enterprise Risk Dashboard that features the Company’s risk profile from five perspectives (namely strategic, financial, operational, technology and compliance) is submitted to the Board, Board Risk Management Committee and Senior Management Team for notation.

99. Stress test scenarios and the corresponding stress factors are developed and reviewed by the Board annually and thereafter, the scenarios and factors are used to stress the financial positions at least annually.

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INTERNAL CONTROL FRAMEWORK (CONT'D.)

Monitoring and Reporting (Cont'd.)

100. Regulatory breach and operational incidents are reported in the Enterprise Risk Dashboard while investment breaches are reported via the limits report and compliance examination reports. Respective business units are required to provide the corrective and preventive measures once a regulatory breach or operational incident is discovered. The Company has a process to collate statistics for several Key Risk Indicators for reporting to BNM on a regular basis.

RELATED PARTY TRANSACTIONS

101. The Company has implemented policies and procedures on related party transactions covering the definitions of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving, monitoring whenever necessary, and writing off such transactions. All related party transactions are conducted on reasonable commercial terms and in the ordinary course of business. The terms and conditions of such transactions are carried out on an arm’s length basis. Directors with conflict of interest are excluded from the approval process of granting and managing related party transactions. Material and/or special related party transactions and the write-off material and/or special related party transactions are reported to the Board Audit Committee for review and to the Board for approval. Details of the Company’s related party transactions during FY2018 are set out in Note 31 of the Notes to the financial statements.

ETHICAL STANDARDS

102. The Directors and Management are committed to promoting and maintaining values which emphasise integrity, honesty and proper conduct at all times in the business operations and dealings of the Company. The Company has adopted a Code of Conduct which sets out the guiding principles and minimum standards expected of its employees such as the highest standards of conduct and professional integrity. The Code of Conduct also provides guidance on areas such as responsible stewardship of the Company’s resources, the Company’s position against fraudulent conduct, conflicts of interests and the appropriate disclosures to be made, and maintaining confidentiality of information. The Code of Conduct is available on the Company’s StaffNet.

103. The Company has a suite of policies in place for proper governance and management that staff have to comply with. All policies are prepared in accordance with the Company’s risk management and internal control systems and processes, including Management self-assessment and independent audits.

104. The Company treats feedback and complaints from its customers seriously, and has instituted channels whereby customers may provide feedback or complaints. The Company aims to resolve feedback and complaints professionally and fairly in accordance with the service standards indicated on its website.

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STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Ng Hon Soon and Tan Fong Sang, being two of the Directors of Great Eastern Life Assurance (Malaysia) Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 36 to 189 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 26 March 2019.

Ng Hon Soon

Tan Fong Sang

Kuala Lumpur

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016

I, Loke Chang Yueh, being the officer primarily responsible for the financial management of Great Eastern Life Assurance (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 36 to 189 are in my opinion, 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 abovenamed Loke Chang Yueh
at Kuala Lumpur in the Federal Territory
on 26 March 2019.

Loke Chang Yueh

Before me,

93745-A

Independent auditors' report to the member of Great Eastern Life Assurance (Malaysia) Berhad (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Great Eastern Life Assurance (Malaysia) Berhad ("the Company"), which comprise the balance sheet as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 36 to 189.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, Statement of Corporate Governance and the other information contained in the Annual Report, but does not include the financial statements of the Company and our auditors' report thereon.

Independent auditors' report to the member of
Great Eastern Life Assurance (Malaysia) Berhad (Cont'd.)
(Incorporated in Malaysia)

Information other than the financial statements and auditors’ report thereon (Cont'd.)

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

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Auditors’ responsibilities for the audit of the financial statements

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

Independent auditors' report to the member of
Great Eastern Life Assurance (Malaysia) Berhad (Cont'd.)
(Incorporated in Malaysia)

Auditors' responsibilities for the audit of the financial statements (Cont'd.)

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

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Independent auditors' report to the member of
Great Eastern Life Assurance (Malaysia) Berhad (Cont'd.)
(Incorporated in Malaysia)

Other matters

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

Ernst & Young	Yeo Beng Yean
AF: 0039	No. 03013/10/2020 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia
26 March 2019

GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Property and equipment	3	457,457	463,258
Investment properties	4	1,137,600	601,421
Prepaid land lease payments	5	16,253	16,390
Investments	6	77,693,699	77,060,341
Derivatives	12	5,354	13,063
Reinsurance assets	7	50,672	52,892
Insurance receivables	8	320,304	260,740
Other receivables	9	712,254	911,336
Cash and bank balances		812,773	197,888
Total assets		81,206,366	79,577,329
Equity			
Share capital	10	100,000	100,000
Retained earnings		2,379,139	2,020,146
Other comprehensive income fair value reserves/ Available-for-sale ("AFS") fair value reserve		16,487	9,069
Total equity		2,495,626	2,129,215
Liabilities			
Insurance contract liabilities	11	76,073,013	74,723,658
Derivatives	12	24,849	47,131
Agents' retirement benefits	13	828,281	829,311
Deferred tax liabilities	14	601,589	771,729
Other financial liabilities	15	75,312	89,304
Insurance payables	16	342,776	262,887
Provision for taxation		188,974	97,382
Other payables	17	575,946	626,712
Total liabilities		78,710,740	77,448,114
Total equity and liabilities		81,206,366	79,577,329

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

GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Gross earned premiums	18(a)	8,076,172	7,615,384
Earned premiums ceded to reinsurers	18(b)	(207,560)	(185,106)
Net earned premiums		7,868,612	7,430,278
Investment income	19	3,363,567	3,136,712
Realised gains and losses	20	(421,963)	284,307
Fair value gains and losses	21	(1,629,433)	1,269,875
(Increase)/decrease in provision for impairment of:			
Insurance receivables	8	(542)	464
Other receivables	9	(79)	26
Property and equipment	3	(61)	(799)
Investments		7,921	(185,900)
Fees and commission income	22	16,631	17,363
Other operating revenue		20,993	209,093
Other revenue		1,357,034	4,731,141
Gross benefits and claims paid	23(a)	(5,932,482)	(5,544,289)
Claims ceded to reinsurers	23(b)	94,623	87,527
Gross change in contract liabilities	23(c)	(577,182)	(3,665,137)
Change in contract liabilities ceded to reinsurers	23(d)	3,903	(24,906)
Net benefits and claims		(6,411,138)	(9,146,805)
Fees and commission expense		(1,114,631)	(1,114,673)
Management expenses	24	(538,137)	(584,857)
Other operating expenses		(605)	(1,160)
Taxation of life insurance business	25(a)	(48,920)	(320,070)
Other expenses		(1,702,293)	(2,020,760)
Profit before taxation		1,112,215	993,854
Taxation	25(b)	(226,471)	(201,290)
Net profit for the year		885,744	792,564
Earnings per share (sen)			
Basic and diluted	26	886	793

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

GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RM'000	2017 RM'000
Net profit for the year	885,744	792,564
Other comprehensive loss:		
Other comprehensive income that will not be reclassified to income statement in subsequent periods:		
Net loss on equity instrument designated at fair value through other comprehensive income ("FVOCI")	(72,931)	-
Tax effects thereon (Note 14)	17,598	-
Net other comprehensive loss that will not be reclassified to income statement in subsequent periods (net of tax)	**(55,333)**	**-**
Other comprehensive loss that may be reclassified to income statement in subsequent periods:		
AFS fair value reserves:		
Net gain arising during the year	-	57,048
Net realised gain transferred to Income Statement	-	(60,934)
Impairment losses transferred to Income Statement	-	2,948
Debt instruments at FVOCI:		
Net gain arising during the year	9,930	-
Changes in allowance for Expected Credit Loss	(1,356)	-
Net realised gain transferred to Income Statement	(5,437)	-
	3,137	(938)
Tax effects thereon (Note 14)	(753)	200
Net other comprehensive income/(loss) that may be reclassified to income statement in subsequent periods (net of tax)	**2,384**	**(738)**
Other comprehensive loss for the year, net of tax	**(52,949)**	**(738)**
Total comprehensive income for the year, net of tax	832,795	791,826

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

GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

		Non-Distributable				Distributable		
	Share Capital	**Fair Value Reserves**			**Retained Earnings**			**Total Equity**
		Non-participating Fund	**Shareholder's Fund**	**Sub-total**	**Non-participating Fund***	**Shareholder's Fund**	**Sub-total**	
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2017	100,000	6,559	3,248	9,807	533,494	1,159,088	1,692,582	1,802,389
Net profit for the year	-	-	-	-	554,804	237,760	792,564	792,564
Other comprehensive (loss)/income for the year	-	(6,464)	5,726	(738)	-	-	-	(738)
Total comprehensive (loss)/income for the year	-	(6,464)	5,726	(738)	554,804	237,760	792,564	791,826
Transfer from non-participating fund as recommended by Appointed Actuary (net of tax)	-	-	-	-	(445,874)	445,874	-	-
Dividends paid during the year (Note 27)	-	-	-	-	-	(465,000)	(465,000)	(465,000)
At 31 December 2017	100,000	95	8,974	9,069	642,424	1,377,722	2,020,146	2,129,215
At 1 January 2018	100,000	95	8,974	9,069	642,424	1,377,722	2,020,146	2,129,215
Effects of adoption of MFRS 9 (Note 2.3)	-	65,979	(4,706)	61,273	(9,229)	6,572	(2,657)	58,616
At 1 January 2018 (Restated)	100,000	66,074	4,268	70,342	633,195	1,384,294	2,017,489	2,187,831
Net profit for the year	-	-	-	-	671,358	214,386	885,744	885,744
Other comprehensive loss for the year	-	(31,368)	(21,581)	(52,949)	-	-	-	(52,949)
Total comprehensive (loss)/income for the year	-	(31,368)	(21,581)	(52,949)	671,358	214,386	885,744	832,795
Transfer of fair value reserve of equity instruments designated at FVOCI (net of tax)	-	(768)	(138)	(906)	768	138	906	-
Transfer from non-participating fund as recommended by Appointed Actuary (net of tax)	-	-	-	-	(577,600)	577,600	-	-
Dividends paid during the year (Note 27)	-	-	-	-	-	(525,000)	(525,000)	(525,000)
At 31 December 2018	100,000	33,938	(17,451)	16,487	727,721	1,651,418	2,379,139	2,495,626

* The non-distributable retained earnings represent the unallocated surplus from the Non-participating Funds. In accordance with Section 83 *Withdrawal from insurance funds* of the Financial Services Act, 2013, the unallocated surplus of Non-participating Funds is only available for distribution to the shareholder upon approval/recommendation by the Appointed Actuary.

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

GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Operating activities			
Cash used in operating activities	28	(461,525)	(2,043,995)
Dividend/distribution income received		961,773	777,283
Interest/profit income received		2,390,126	2,316,037
Rental income on investment properties received		57,221	61,794
Agents' retirement benefits paid	13	(80,883)	(99,721)
Income tax paid		(352,828)	(422,013)
Net cash flow generated from operating activities		2,513,884	589,385
Investing activities			
Proceeds from disposal of property and equipment		98	2
Purchase of property and equipment	3	(46,678)	(83,020)
Purchase of investment properties	4	(434,348)	(27)
Net cash flows used in investing activities		(480,928)	(83,045)
Financing activity			
Dividends paid to equity holder, representing net cash flows used in financing activity		(525,000)	(465,000)
Net increase in cash and cash equivalents		1,507,956	41,340
Cash and cash equivalents at beginning of year		2,305,372	2,264,032
Cash and cash equivalents at end of year		3,813,328	2,305,372
Cash and cash equivalents comprise of:			
Cash and bank balances		812,773	197,888
Short term deposits with original maturity periods of less than 3 months	6(a)	3,000,555	2,107,484
		3,813,328	2,305,372

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

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 20, Menara Great Eastern, 303 Jalan Ampang, 50450 Kuala Lumpur.

The principal activity of the Company is the underwriting of life insurance business including investment-linked business.

There has been no significant change in the principal activity during the financial year.

The immediate holding company is Great Eastern Capital (Malaysia) Sdn Bhd, a company incorporated in Malaysia. The intermediate holding company is Great Eastern Life Assurance Company Limited, a company incorporated in the Republic of Singapore. The ultimate holding company is Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), a public-listed company incorporated in the Republic of Singapore.

The financial statements are authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 26 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") as issued by the Malaysian Accounting Standards Board (“MASB”), International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the requirements of the Companies Act, 2016 in Malaysia.

At the beginning of the current financial year, the Company had adopted the amended MFRSs and new MFRSs as described fully in Note 2.3.

The financial statements of the Company have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The Company has met the minimum capital requirements as prescribed by the Risk-based Capital ("RBC") Framework as at the reporting date.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment losses. The initial cost of property and equipment comprises its purchase price, including non-refundable taxes and any costs to enhance the working condition of the asset for its intended use.

Expenditure incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which the costs are incurred. Where the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property and equipment.

Depreciation of property and equipment is calculated on a straight-line basis to write off the cost of each amount to its residual value over its estimated useful life. No depreciation is provided for freehold land as it has an unlimited useful life and capital work in progress as it is not ready for active use. The annual depreciation rates are:

Buildings - Owner occupied properties	2 %
Motor vehicles	20 %
Office machinery	6 - 20 %
Office furniture and fittings	10 %
Computer equipment	10 - 33 %

Leasehold buildings are depreciated over their estimated useful lives or over the remaining lease term of the leasehold land on which the building resides, if the remaining lease term of the leasehold land is shorter than the estimated useful life of the building.

Software costs refers to the life assurance administration system and the distribution channel management system. These costs are classified as part of property and equipment and depreciated over a period of 10 years on a straight line-basis from the date of system commissioning.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(a) Property and Equipment and Depreciation (Cont'd.)

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with the carrying amounts and are included in the income statement.

Included in the Life Insurance Fund's property and equipment are freehold land, and leasehold and freehold buildings occupied for own use for the operations of the Company. Leasehold land are classified as prepaid lease payments as described in Note 2.2(c).

(b) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

(ii) Finance Leases - the Company as Lessee

Useful lives of all leasehold buildings are shorter than the lease term of the leasehold land on which the buildings are located. As such, all risks and rewards incidental to the ownership of such assets would be deemed to have been substantially transferred to the Company at the end of their useful lives. All leasehold buildings are therefore classified as finance lease in the financial statements.

Buildings held under finance leases are recognised as assets in the Balance Sheet of the Company and measured in accordance with MFRS 116 - *Property, Plant and Equipment* or MFRS 140 - *Investment Properties*.

The depreciation policy for leased assets is in accordance with that for depreciable property and equipment as described in Note 2.2(a) or investment properties as described in Note 2.2(b).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Leases (cont'd.)

(iii) Operating Leases - the Company as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term. Long term prepaid lease payments refer to leases with an unexpired period of fifty years or more.

(iv) Operating Leases - the Company as Lessor

Assets leased out under operating leases are presented on the balance sheet according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease (Note 2.2(q)). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis on the lease term.

(d) Investments and Financial Assets (Policy applicable before 1 January 2018)

The Company classifies its investments into financial assets at fair value through profit or loss (“FVTPL”), loans and other receivables (“LAR”) and available-for-sale ("AFS") financial assets. The classification depends on the purpose for which the investments were acquired or originated.

Financial assets are classified as FVTPL where the Company’s documented investment strategy is to manage financial assets on a fair value basis, because the related liabilities are also managed on this basis.

The AFS category is used when the relevant liabilities (including shareholder's funds) are passively managed and/or carried at amortised cost. All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(d) Investments and Financial Assets (Policy applicable before 1 January 2018) (Cont'd.)

(i) FVTPL

Assets stated at FVTPL include financial assets held for trading and those designated at FVTPL at inception. Investments typically bought with the intention to sell in the near future are classified as FVTPL.

For investments designated at FVTPL, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment such as asset liability mismatch, that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets classified as FVTPL include fixed income securities, derivatives and embedded derivatives.

Investments under unit-linked funds are designated as FVTPL at inception as they are managed and evaluated on a fair value basis in accordance with the respective investment strategy and mandate.

Derivatives are financial instruments or contracts where its values vary according to changes in interest rate, foreign exchange rate, credit spread or other variables. Embedded derivatives are hybrid financial instruments that include a non-derivative host contract.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(d) Investments and Financial Assets (Policy applicable before 1 January 2018) (Cont'd.)

(ii) LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process.

(iii) AFS Financial Assets

AFS are non-derivative financial assets not classified in any of the preceding asset categories.

After initial recognition, AFS are remeasured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in the fair value reserve in the Statement of Comprehensive Income or Insurance Contract Liabilities (for Participating Fund only), except for impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method, which are recognised in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement when the financial asset is derecognised.

(e) Investments and Financial Assets (Policy applicable after 1 January 2018)

Initial Recognition and Measurement

Financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial assets. The Company determines the classification of its financial assets and liabilities at initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Investments and Financial Assets (Policy applicable after 1 January 2018) (Cont'd.)

Initial Recognition and Measurement (Cont'd.)

At initial recognition, the Company measures a financial asset at its fair value, plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs for financial assets carried at fair value through profit or loss are recognised as expense in the Income Statement.

Regular way purchase or sale of a financial asset

All regular way purchases and sales of financial assets are recognised or derecognised on trade date i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

Classification

On initial recognition, a financial asset is classified as measured at Amortised Cost ("AC"), FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as measured at FVTPL:
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

An equity security that is not held for trading may by irrevocable election, be designated and measured at FVOCI. This election is made on an investment-by-investment basis. The Company has designated certain equity securities held for strategic purposes as measured at FVOCI.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Investments and Financial Assets (Policy applicable after 1 January 2018) (Cont'd.)

Initial Recognition and Measurement (Cont'd.)

A financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI may, by irrevocable election, be designated and measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Company has designated certain debt securities which are held with the intent to hold to collect contractual cash flows and sell to be measured at FVTPL.

All other financial assets are measured as FVTPL.

<u>Business model assessment</u>

The Company assesses the objective of the business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed, and whose performance is evaluated on a fair value basis, are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If the cash flows after initial recognition are realised in a way that is different from the Company’s original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Investments and Financial Assets (Policy applicable after 1 January 2018) (Cont'd.)

Initial Recognition and Measurement (Cont'd.)

<u>Assessment whether contractual cash flows are solely payments of principal and interest</u>

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers the following key aspects:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Subsequent measurement

I Debt Instruments

Subsequent measurement of debt instruments depends on the Company’s business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

(i) Amortised Cost ("AC")

Debt instruments that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in income statement. Gains or losses are also recognised in income statement when the assets are derecognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Investments and Financial Assets (Policy applicable after 1 January 2018) (Cont'd.)

Subsequent measurement (Cont'd.)

I Debt Instruments (Cont'd.)

(ii) Fair value through other comprehensive income ("FVOCI")

Debt instruments that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Any gains or losses from changes in fair value are recognised in other comprehensive income and accumulated in fair value reserve. Impairment, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in income statement. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to income statement when the financial asset is de-recognised.

(iii) Fair value through profit or loss ("FVTPL")

Debt instruments that do not meet the criteria for classification as amortised cost or FVOCI are measured at FVTPL. Any gains or losses from changes in fair value and interest are recognised in income statement.

II Equity Instruments

The Company subsequently measures all equity instruments at fair value. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than held for trading. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including upon disposal. Equity instruments designated at FVOCI are not subject to impairment assessment. Dividends, when representing a return from such investments are to be recognised in income statement when the Company's right to receive payments is established.

Changes in fair value of financial assets at FVTPL are recognised in income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Investments and Financial Assets (Policy applicable after 1 January 2018) (Cont'd.)

Subsequent measurement (Cont'd.)

III Derivatives and Hedging Activities

The Company applies economic hedge for currency and foreign exchange risks involving derivatives such as cross currency swap and forward currency contracts. All derivatives are carried as financial asset when the fair value is positive and as financial liabilities when the fair value is negative.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. Fair value adjustments and realised gains and losses are recognised in the income statement.

IV Loans and Receivables ("LAR")

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process.

(f) Insurance Receivables

Insurance receivables are recognised when due. They are measured at initial recognition at the fair value received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using effective interest method. Prior to 1 January 2018, the carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in the income statement. After 1 January 2018, a loss allowance is measured at an amount equal to lifetime expected credit losses with the impairment loss recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Insurance Receivables (Cont'd.)

The expected credit loss impairment provisional amounts are recognised in the income statement quarterly. Subsequent increases in the recoverable amount of the insurance receivable are treated as reversal of the previous expected credit loss impairment amount.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

(g) Derivatives

The Company uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

(h) Financial Liabilities and Insurance Payables

Financial liabilities and insurance payables are recognised on the balance sheet when the Company becomes a party to the contractual obligations of the financial instrument.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(i) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL.

Financial liabilities held for trading include derivatives entered into by the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains and losses recognised in the income statement. Net gains or losses on derivatives include exchange differences.

The Company has not designated any financial liabilities at FVTPL.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(h) Financial Liabilities and Insurance Payables (Cont'd.)

(ii) Other financial liabilities

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Gains or losses are recognised in the income statement.

(i) Fair Value Measurement

The Company measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 6(a).

Fair value is 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Fair Value Measurement (Cont'd.)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable including quotes from brokers and market makers, discounted cash flows and other valuation techniques commonly used by market participants

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties. Involvement of external valuers is decided upon annually by the Properties Department. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. A valuation is done on an annual basis.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(i) Fair Value Measurement (Cont'd.)

The Company and its appointed external valuers also compares the changes in the fair value of each property with relevant external sources to determine whether the change is reasonable.

The valuation results, as performed by the Company's external valuers, are presented to the Board in the year the valuation is performed.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(j) Impairment of Financial Assets (Policy applicable before 1 January 2018)

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Objective evidence that a financial asset is impaired includes observable data about loss events like significant financial difficulty of the issuer or obligor; significant adverse changes in the business environment in which the issuer or obligor operates and the disappearance of an active market for that financial asset because of financial difficulties which indicate that there is measurable decrease in the estimated future cash flows. However, it may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events is considered in determining whether an asset is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate/yield. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of loss is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(j) Impairment of Financial Assets (Policy applicable before 1 January 2018) (Cont'd.)

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss on a financial asset carried at cost has been incurred, the carrying amount will be written down to the recoverable amount. Such impairment losses are not reversed in subsequent periods.

(iii) AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income to the income statement. Reversals in respect of equity instruments are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as AFS are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

Impairment for equity instrument is provided immediately upon meeting the significant or prolonged criteria in compliance with MFRS 139.

(k) Impairment of Financial Assets (Policy applicable after 1 January 2018)

The Company recognises loss allowances for expected credit losses (“ECL”) on the following financial instruments that are not measured at FVTPL:

(i) Debt instruments measured at FVOCI;
(ii) Loans and receivables measured at amortised cost; and
(iii) Loan commitments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Impairment of Financial Assets (Policy applicable after 1 January 2018) (Cont'd.)

The Company assesses on a forward looking basis the ECL associated with its loans and debt instruments carried at amortised cost and FVOCI and its loan commitments. For trade and insurance receivables, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses. The Company recognises a loss allowance for ECL at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL represent the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Modified financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected modification will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or

- If the expected modification will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Impairment of Financial Assets (Policy applicable after 1 January 2018) (Cont'd.)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets measured at amortised cost and debt financial assets measured at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Company considers factors as evidence that a financial instrument is credit impaired:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

For financial assets that are not credit-impaired at the reporting date: the ECL is the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

For financial assets that are credit-impaired at the reporting date: the ECL is the difference between the gross carrying amount and the present value of estimated future cash flows.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(l) Derecognition of Financial Assets and Liabilities

A financial asset is derecognised when:

- The contractual right to receive cash flows from the financial asset has expired; or

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flow in full without material delay to a third party under a ‘pass through’ arrangement and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

On derecognition of a financial asset in its entirety except for equity securities measured at FVOCI, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of asset derecognised) and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the income statement.

On derecognition of equity securities measured at FVOCI, any cumulative gain/loss recognised in other comprehensive income is not recognised in income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(m) Impairment of Non-Financial Assets

The carrying amount of non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

An impairment loss is recognised in the income statement in the period in which it arises. Subsequent increases in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. A reversal of impairment loss is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(n) Insurance Contract

(i) Product Classification

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 considering whether upon the insured event the Company is required to pay additional benefits.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Insurance Contract (Cont'd.)

(i) Product Classification (Cont'd.)

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

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

(i) Likely to be a significant portion of the total contractual benefits.

(ii) The amount or timing is contractually at the discretion of the issuer.

(iii) 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

- The profit or loss of the company, fund or other entity that issues the contract

Surpluses in the DPF funds can be distributed on an approximate 90/10 basis in accordance with BNM's guidelines - Management of Insurance Funds to the policyholders and the shareholder respectively. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Insurance Contract (Cont'd.)

(i) Product Classification (Cont'd.)

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contracts with DPF, bifurcation 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.

For the purpose of product classification, the Company adopts maximum policy benefits as the proxy for insurance risk and cash surrender value as the proxy for realisable value of the insurance contract on surrender. The Company defines insurance risk to be significant when the ratio of the insurance risk over the deposit component is not less than 105% of the deposit component at any point of the insurance contract in force. Based on this definition, all policy contracts issued by the Company are considered insurance contracts as at the date of this balance sheet.

(ii) Types of Insurance Contracts

Insurance contract liabilities are classified into principal components as follows:

(a) Life Assurance contract liabilities comprising:

- Participating Fund contract liabilities;
- Non Participating Fund contract liabilities; and
- Investment Linked Fund contract liabilities.

(b) Reinsurance contracts

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Insurance Contract (Cont'd.)

(iii) Life Assurance Contract Liabilities

Insurance contracts are recognised and measured in accordance with the terms and conditions of the respective insurance contracts and are based on regulatory guidelines. Premiums, claims and benefit payments, acquisition and management expenses and valuation of future policy benefit payments or premium reserve as the case may be, are recognised in the income statement of the respective funds.

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and expected future management and distribution expenses, less the present value of future gross consideration 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 a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the 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 policyholders, are set as the liabilities if the accumulated amount is higher than the amounts as calculated using the gross premium valuation method.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Insurance Contract (Cont'd.)

(iii) Life Assurance Contract Liabilities (Cont'd.)

Adjustments to the liabilities at each reporting date are recorded in the income statement. Profits originating from margins of adverse deviations on run-off contracts, are recognised in the income statement over the life of the contract, whereas losses are fully recognised in the income statement during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

The Company issues a variety of short and long duration insurance contracts which transfer risks from the policyholders to the Company to protect policyholders from the consequences of insured events such as death, disability, illness, accident, including survival. These contracts may transfer both insurance and investment risk or insurance risk alone, from the policyholders to the Company.

For non-participating policy contracts, both insurance and investment risks are transferred from policyholders to the Company. For non-participating policy contracts other than medical insurance policy contracts, the payout to policyholders upon occurrence of the insured event is pre-determined and the transfer of risk is absolute. For medical insurance policy contracts, the payout is dependent on the actual medical cost incurred upon occurrence of the insured event.

Contracts which transfer significant insurance risk alone from policyholders to the Company are commonly known as investment-linked policies. As part of the pricing for these contracts, the Company includes certain charges and fees to cover for expenses and insured risk. The net investment returns derived from the variety of investment funds as selected by the policyholder accrue directly to the policyholder.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Insurance Contract (Cont'd.)

(iii) Life Assurance Contract Liabilities (Cont'd.)

A significant portion of insurance contracts issued by the Company contain discretionary participating features. These contracts are classified as participating policies. In addition to the guaranteed benefits payable upon occurrence of an insured event associated with human life such as death or disability, the contract entitles the policyholder to receive benefits which could vary according to investment performance of the fund. The Company does not recognise the guaranteed portion separately from the discretionary participating feature.

The valuation of insurance contract liabilities is determined according to BNM's RBC Framework for Insurers and MFRS 4 *Insurance Contracts.* The RBC Framework for Insurers issued by BNM meets the requirement of the Liability Adequacy Test under MFRS 4.

The Company performs liability adequacy tests on its life insurance liabilities to ensure that the carrying amount of provisions is sufficient to cover estimated future cash flows. When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount against the carrying value of the liability. Any deficiency is charged to the income statement.

(o) Reinsurance Contracts

The Company cedes insurance risk in the normal course of its life insurance business. Reinsurance assets represent balances due from reinsurers. These amounts are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the financial year. 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 part or all outstanding amounts due under the terms of the contract. The impairment loss is recorded in the income statement. Gains or losses on reinsurance are recognised in the income statement immediately at the date of contract and are not amortised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) Reinsurance Contracts (Cont'd.)

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 or liabilities are derecognised when the contractual rights are extinguished or expired.

(p) Life Insurance Underwriting Results

The surplus transferable from the Life Insurance Fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders.

(i) Gross Premium Income

Premium is recognised as soon as the amount of the premium can be reliably measured. First year premium is recognised from inception date and subsequent premium is recognised when it is due. For single premium business, revenue is recognised on the date on which the policy is effective. Premiums from the investment-linked business are recognised as revenue when payment is received.

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured. Premium not received on due date are recognised as revenue in the income statement and reported as outstanding premiums in the balance sheet.

(ii) Reinsurance Premiums

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

(iii) Creation of Units

Net creation of units, which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract, are reflected in the income statement. Net creation of units is recognised on a receipt basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) Life Insurance Underwriting Results (Cont'd.)

(iv) Commission and Agency Expenses

Commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, net of income derived from reinsurers in the course of ceding of premium to reinsurers, are charged to the income statement in the period in which they are incurred.

(v) Claims and Policy Benefits

Claims and settlement costs that are incurred during the financial period are recognised when a claimable event occurs and/or when the insurer is notified.

Policy benefits are recognised in the accounts when the policyholder exercises the option to deposit the cash bonus and survival benefit with the Company when the benefits fall due. Policy benefits bear fixed interest rates as determined by the Company from time to time.

Claims and provisions for claims arising on life insurance policies, including settlement costs, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

(a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates;

(b) 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;

(c) benefits payable under investment-linked business include net cancellation of units and are recognised as surrender; and

(d) bonus on non-participating life policies upon declaration.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(q) Other Revenue Recognition

Interest income is recognised on a time proportion basis that takes into account the effective yield of the asset.

Rental is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, income is recognised on a receipt basis until all arrears have been paid.

Dividend is recognised when the right to receive payment is established.

All sales of investments are recognised on their trade dates i.e., the date the Company commits to sell the assets. Gains or losses arising from the sale of investments are calculated as the difference between net sales proceeds and the original or carrying amount and are credited or charged to the income statement.

(r) Fees and Commission Income

Fees and commission income comprise mainly of management fee and reinsurance commission income. Management fee includes income earned from provision of investment management services for investment linked businesses. These fees income are recognised as revenue over the period in which the services are rendered.

(s) Agents' Retirement Benefits

Provision for agents' retirement benefits is calculated in accordance with the terms and conditions in the respective Life Assurance Sales Representative's Agreements ("Agreements").

The terms and conditions of the Agreements stipulate that upon the agent maintaining his position for the qualifying year and achieving the required personal sales and minimum new business, the Company shall allocate to the agent a deferred benefit/retirement benefit.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(s) Agents' Retirement Benefits (Cont'd.)

The deferred benefit/retirement benefit accumulated at the reporting date includes an element of accrued interest, which is calculated at the Participating fund rate of return for the year/dividend rate as announced by the Employees' Provident Fund for that year.

The accrued deferred benefit shall only become payable provided the Agreements have been in force for certain continuous contract years.

(t) Foreign Currencies

(i) Functional and Presentation Currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency ("foreign currencies") are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in the income statement. Exchange differences on non-monetary item such as equity investments classified as Fair Value Through Comprehensive Income are included in the fair value reserve in equity.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(t) Foreign Currencies (Cont'd.)

(ii) Foreign Currency Transactions (Cont'd.)

The principal exchange rates of foreign currency ruling at reporting date used are as follows:

	2018 RM	2017 RM
Singapore Dollar	3.04	3.03
United States Dollar	4.13	4.06
British Pound	5.27	5.46
Australian Dollar	2.91	3.16
Hong Kong Dollar	0.53	0.52
Japanese Yen	0.04	0.04

(u) Income Tax

Income tax in the income statement for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

In addition to paying tax on shareholder's profit, the life insurance business pays tax on policyholders' investment returns at a tax rate of 8%. Tax on policyholders is recognised as an expense and disclosed separately under taxation of life insurance business in the Income Statement.

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(u) Income Tax (Cont'd.)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(v) Employee Benefits

(i) Defined Contribution Plans Under Statutory Regulations

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(ii) Employee Leave Entitlements

An employee's entitlement to annual leave is estimated and accrued according to the Company’s Human Resource policy.

(iii) Share Options

Senior executives of the Company are granted share options in the OCBC Bank's Share Option Scheme as consideration for services rendered. Options granted generally vest in one-third increments over a 3-year period and expire between 5 and 10 years from date of grant. The cost of these equity-settled share based payment transactions with the senior executives is measured by reference to the fair value of the options at the date on which the options are granted which takes into account market conditions and non-vesting conditions. The cost is recognised in the income statement of the respective insurance funds, with a corresponding increase in the intercompany balance with the ultimate holding company, over the vesting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(v) Employee Benefits (Cont'd.)

(iii) Share Options (Cont'd.)

The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of options that will ultimately vest. The charge or credit to income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. In the case where the option does not vest as a result of a failure to meet a non-vesting condition that is within the control of the Company or the senior executives, it is accounted for as a cancellation. In such case, the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately in the income statement upon cancellation.

(iv) Deferred Share Plan

In addition to the OCBC Bank’s Share Option Scheme, certain employees within the Company are granted OCBC shares under the OCBC Deferred Share Plan (“DSP”). For deferred share awards granted as part of variable performance bonus, half of the share awards will vest two years from the grant date and the remaining half will vest at the end of three years from the grant date. The cost of the DSP is recognised in the income statement on the straight-line basis over the vesting period of the DSP.

At each reporting date, the cumulative expense is adjusted for the estimated number of shares granted under the DSP that have vested and/or lapsed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(w) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term, highly liquid investments with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

(x) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provision is discounted using a current pre-tax rate that reflects the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(y) Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(z) Goods and Service Tax ("GST")/Sales and Service Tax

GST is a multistage consumption tax on domestic consumption. For the Company, revenues, expenses and assets are recognised net of the amount of GST except where GST incurred on a purchase of assets or services is not recoverable from the tax authority, in which case GST is recognised as part of the expense item as applicable. Receivable and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the tax authority is included as part of the receivables and payables in the balance sheet.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(z) Goods and Service Tax ("GST")/Sales and Service Tax (Cont'd.)

Based on the Federal Government Gazette on Goods and Services Tax (Rate of Tax) (Amendment) Order 2018 (“the Order”) issued on 16 May 2018, the GST standard rate was amended from 6% to 0% with effect from 1 June 2018. Effective from 1 September 2018, the Sales Tax Act 2018 and the Service Tax Act 2018 together with its respective subsidiary legislations are introduced to replace the GST Act 2014 which was repealed on the same date.

(aa) Investment in subsidiary

A subsidiary is an entity over which the Company has all the following:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) Exposure, or rights, to variable returns from its investment with the investee; and

(iii) The ability to use its power over the investee to affect its returns.

In the Company's financial statements, investment in subsidiary, which relates to investment in collective investment scheme, is carried at fair value.

On disposal of such investment, the difference between the net disposal proceeds and its carrying amount is recognised as gain or loss on disposal in the income statement.

The Company is exempted from presenting consolidated financial statements based on the criteria set out in paragraph 4 of MFRS 10 *Consolidated Financial Statements.*

The immediate holding company, Great Eastern Capital (Malaysia) Sdn. Bhd., prepares the consolidated financial statements in accordance with MFRS in Malaysia, which are available for inspection at the registered office of the immediate holding company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following standards, amendments to standards and interpretation of standards:

On 1 January 2018, the Company adopted the following amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2018.

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

The adoption of the above standards and pronouncements other than MFRS 9 *Financial Instruments* did not have any significant impact on the financial statements of the Company.

MFRS 9 *Financial Instruments*

The Company applies, for the first time, MFRS 9 *Financial Instruments* in the current financial year. The nature and effect of adopting MFRS 9 are disclosed below and in Table A.

The Company has adopted MFRS 9 *Financial Instruments* effective 1 January 2018. The requirements of MFRS 9 represent a significant change from MFRS 139 *Financial Instruments: Recognition and Measurement.* The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D.)

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

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

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

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

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D.)

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

The following table shows the material reclassifications arising from adoption of MFRS 9 as well as the impact, net of tax, in fair value reserves and retained earnings. There is no impact on other components of equity.

Table A

	Before MFRS9 adjustments RM'000	Classification and Measurement RM'000	Expected Credit Loss ("ECL") Impairment RM'000	After MFRS9 adjustments RM'000	Note
Assets					
Investments	**77,060,341**	**149,747**	**(26,627)**	**77,183,461**	
LAR	9,298,595	(9,298,595)	-	-	
AC	-	9,298,595	(26,627)	9,271,968	
AFS	22,801,295	(22,801,295)	-	-	
- Quoted equities	19,835,223	(19,835,223)	-	-	
- Unquoted equities	8,466	(8,466)	-	-	
- Debt securities	147,070	(147,070)	-	-	
- Collective investment schemes	2,810,536	(2,810,536)	-	-	
FVTPL	44,960,451	21,345,520	-	66,305,971	
- Quoted equities	4,957,763	19,408,149	-	24,365,912	
- Unquoted equities	-	77,363	-	77,363	a
- Debt securities	39,851,807	(950,528)	-	38,901,279	c
- Collective investment schemes	150,881	2,810,536	-	2,961,417	
FVOCI	-	1,605,522	-	1,605,522	
- Quoted equities	-	427,074	-	427,074	b
- Unquoted equities	-	80,850	-	80,850	a
- Debt securities	-	1,097,598	-	1,097,598	
Insurance receivables	260,740	-	(624)	260,116	
Equity					
Retained earnings	2,020,146	6,186	(8,843)	2,017,489	
AFS reserves	9,069	(9,069)	-	-	
FVOCI reserves	-	65,128	5,214	70,342	
Liabilities					
Insurance contract liabilities	74,723,658	66,403	(21,438)	74,768,623	
Deferred tax liabilities	771,729	21,099	(2,184)	790,644	

The Company's accounting policies on the classifications of financial instruments under MFRS 9 are set out in Note 2.2(e). The application of these policies resulted in the reclassifications set out in the table above and are explained below.

(a) Before the adoption of MFRS 9, certain equity securities were measured at cost because their fair value could not be reliably measured. MFRS 9 has removed this cost option.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D.)

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

(b) Certain equity securities held by the Company for strategic purposes have been designated as FVOCI under MFRS 9. Certain available-for-sale equity securities have been designated under MFRS 9 as at FVOCI as they are not held-for-trading.

(c) Certain available-for-sale debt securities are held by the Company for with the intent to hold to collect contractual flows and sell. At the date of initial application of MFRS 9, the Company elected the fair value option on these securities as it eliminates or significantly reduces an accounting mismatch. These assets are therefore measured at FVTPL under MFRS 9.

Other than the effects described above, the adoption of the new standard have no material impact on the financial statements in the year of initial application.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Effective for financial periods beginning on or after 1 January 2019

The following are standards, amendments to standards and interpretations to standards issued by MASB, but not yet effective, up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards, amendments to standards and interpretations to standards, if applicable, when they become effective:

- MFRS 16 *Leases*
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 128 *Investments in Associates and Joint Ventures - Long-term Interest in Associates and Joint Ventures*
- Amendments to MFRS 3 *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 9 *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 *Joint Arrangement (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 112 *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 cycle)*
- Amendments to MFRS 119 *Employee Benefits - Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123 *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 cycle)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONT'D.)

Effective for financial periods beginning on or after 1 January 2020

- Amendments to MFRS 3 *Business Combination*
- Amendments to MFRS 101 *Presentation of Financial Statements*
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

Effective for financial periods beginning on or after 1 January 2021

- MFRS 17 *Insurance Contracts*

Deferred

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

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

MFRS 16 *Leases*

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

The standard includes two recognition exemptions for lessees – leases of ‘low value’ assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONT'D.)

MFRS 16 *Leases* (Cont'd.)

MFRS 16 is effective for annual periods beginning on or after 1 January 2019 and the Company will apply the standard from its mandatory adoption date. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expense).

As at 31 December 2018, the Company has non-cancellable operating lease commitments of RM1,811,551. Of these commitments, approximately RM119,530 relate to short-term leases and RM321,597 to low-value leases which will both be recognised on a straight-line basis as expense in the Income Statement. For the remaining lease commitments the Company expects to recognise right-of-use assets of approximately RM1,540,147 with a corresponding lease liability.

The Company expects that net profit after tax will decrease by approximately RM284,260 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately RM403,295 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Company’s activities as a lessor are not material and the Company does not expect any significant impact on the financial statements. However, additional disclosures will be required from next year.

MFRS 17 *Insurance Contracts*

In August 2017, MFRS 17 was issued, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces MFRS 4.

MFRS 17 is effective for annual periods beginning on or after 1 January 2021. The Company plans to adopt the new standard on the required effective date and a Project Steering Committee has been formed to oversee the implementation of MFRS 17. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with the Company’s financial statements’ presentation and disclosures.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical Judgements Made in Applying Accounting Policies

The following are judgements made by management in the process of applying the Company's accounting policies that have significant effect on the amounts recognised in the financial statements.

(i) Classification Between Investment Properties and Property and Equipment (Notes 3 and 4)

The Company has developed certain criteria based on MFRS 140 *Investment Property* in making judgement whether a property qualifies to be classified as an investment property. Investment property is a property held to earn rental or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Company would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

(ii) Impairment of Financial Assets (Note 33(g))

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

(a) Critical Judgements Made in Applying Accounting Policies (Cont'd.)

(iii) Insurance Contract Classification (Note 11)

Contracts are classified as insurance contracts where they transfer significant insurance risk from the policyholder to the Company. The Company exercises judgement about the level of insurance risk transferred. 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. These additional benefits include claims liability and assessment costs, but exclude loss of the ability to charge the policyholder for future services. The assessment covers the whole of the expected term of the contract where such additional benefits could be payable.

(b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Valuation of Life Insurance Contract Liabilities (Note 11)

The estimation of the ultimate liability arising from claims made under life insurance contracts is the Company’s most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liabilities that the Company will ultimately be required to pay as claims.

For life insurance contracts, estimates are made for future deaths, disabilities, morbidities, voluntary terminations, investment returns and administration expenses. The Company relies on standard industry and reinsurance tables which represent historical experiences, and makes appropriate adjustments for its respective risk exposures in deriving the mortality, disability and morbidity estimates. These estimates provide the basis in the valuation of the future benefits to be paid to policyholders and ensure adequate provision of reserve which are monitored against current and future premiums. For those contracts that insure risk on longevity and disability, estimates are made based on recent past experience and emerging trends. Epidemics and changing patterns of lifestyle could result in significant changes to the expected future exposures. At each reporting date, these estimates are assessed for adequacy and changes will be reflected as adjustments to the insurance contract liabilities.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

(b) Key Sources of Estimation Uncertainty (Cont'd.)

(ii) Agents' Retirement Benefits (Note 13)

Provision for agents' retirement benefits is calculated in accordance with the terms and conditions of the agreement, which stipulate that upon the agent maintaining his position for the qualifying year and achieving the required personal sales and minimum new business, the Company shall allocate to the agent a deferred benefit/retirement benefit. Interest will be accrued based on an estimated rate at the end of the financial year on the deferred benefit/retirement benefit accumulated with adjustment made subsequent to the year end when the participating fund rate of return is known or when the dividend rate is declared by the Employees Provident Fund ("EPF"). Additional provision is made to cover estimated liability for future benefits payable in the event of death or total and permanent disablement of the eligible agents and the estimates are made for future deaths, disabilities, investment returns and benefits payable. The agents' retirement benefits shall become vested and payable upon fulfilment of the stipulated conditions.

Judgement is required to estimate the provision to be made, based upon the likely fulfilment of the conditions and occurrence of the claimable event.

At each reporting year, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the provision.

(iii) Deferred tax (Note 14)

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainties hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statement of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

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3. PROPERTY AND EQUIPMENT

	Properties								
	Freehold Land RM'000	Buildings on Freehold Land RM'000	Buildings on Leasehold Land RM'000	Capital Work-in-Progress RM'000	Motor Vehicles RM'000	Office Machinery RM'000	Office Furniture and Fittings RM'000	Computer Equipment RM'000	Total RM'000
Cost									
At 1 January 2018	13,861	342,864	99,901	9,837	2,485	79,985	28,216	518,404	1,095,553
Additions	-	-	106	14,335	174	3,337	3,425	25,301	46,678
Disposals	-	-	-	-	(712)	-	-	-	(712)
Reclassification	-	-	740	(2,933)	-	680	1,513	-	-
Transfer to investment properties	(1,954)	-	-	-	-	-	-	-	(1,954)
Write-offs	-	(1,651)	-	-	-	-	-	(22)	(1,673)
At 31 December 2018	11,907	341,213	100,747	21,239	1,947	84,002	33,154	543,683	1,137,892
Accumulated Depreciation and Impairment									
At 1 January 2018	-	128,406	25,541	-	2,377	73,803	18,470	383,698	632,295
Depreciation charge for the year	-	6,826	2,013	-	83	3,137	2,138	36,078	50,275
Impairment	-	-	61	-	-	-	-	-	61
Disposals	-	-	-	-	(712)	-	-	-	(712)
Write-offs	-	(1,484)	-	-	-	-	-	-	(1,484)
At 31 December 2018	-	133,748	27,615	-	1,748	76,940	20,608	419,776	680,435
Net Book Value									
At 31 December 2018	11,907	207,465	73,132	21,239	199	7,062	12,546	123,907	457,457

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3. PROPERTY AND EQUIPMENT (CONT'D.)

	Properties								
	Freehold Land RM'000	Buildings on Freehold Land RM'000	Buildings on Leasehold Land RM'000	Capital Work-in-Progress RM'000	Motor Vehicles RM'000	Office Machinery RM'000	Office Furniture and Fittings RM'000	Computer Equipment RM'000	Total RM'000
Cost									
At 1 January 2017	13,861	342,609	66,103	8,642	2,485	87,964	64,627	533,223	1,119,514
Additions	-	255	33,798	1,414	-	2,873	2,301	42,379	83,020
Disposals	-	-	-	-	-	(33)	-	-	(33)
Reclassification	-	-	-	(217)	-	-	217	-	-
Write-offs	-	-	-	(2)	-	(10,819)	(38,929)	(57,198)	(106,948)
At 31 December 2017	13,861	342,864	99,901	9,837	2,485	79,985	28,216	518,404	1,095,553
Accumulated Depreciation and Impairment									
At 1 January 2017	-	121,465	23,422	-	2,185	81,753	55,182	390,102	674,109
Depreciation charge for the year	-	6,941	1,320	-	192	2,902	2,217	50,794	64,366
Impairment	-	-	799	-	-	-	-	-	799
Disposals	-	-	-	-	-	(33)	-	-	(33)
Write-offs	-	-	-	-	-	(10,819)	(38,929)	(57,198)	(106,946)
At 31 December 2017	-	128,406	25,541	-	2,377	73,803	18,470	383,698	632,295
Net Book Value									
At 31 December 2017	13,861	214,458	74,360	9,837	108	6,182	9,746	134,706	463,258

Included in property and equipment are the cost of fully depreciated assets which are still in use amounting to RM441,334,747 (2017: RM398,800,981).

Included in property and equipment are properties with a total net book value amounting to RM34,739,233 (2017: RM34,800,367) for which title deeds are still in the process of being transferred to the Life Insurance Fund.

4. INVESTMENT PROPERTIES

	2018 RM'000	2017 RM'000
At 1 January	601,421	603,810
Additions (note i)	434,348	27
Transfer from deposits (note i)	108,815	-
Transfer from property and equipment	1,954	-
Write-off	(1,385)	-
Fair value loss (Note 21)	(7,553)	(2,416)
At 31 December	1,137,600	601,421

Note (i) refers to the capitalisation of an office building upon completion in the current year for which a deposit of RM108.8 million paid was previously reported under Note 9.

The Company's investment properties consist of commercial and residential properties in Malaysia − based on the nature, characteristics and risks of each property.

As at 31 December 2018, the fair values of the properties are based on valuations performed by Messrs. Savills (Malaysia) Sdn. Bhd. (2017: Messrs. Savills (Malaysia) Sdn. Bhd.), an accredited independent firm of property valuers. The property valuers are specialists in valuing these types of investment properties. The valuation models applied are in accordance with that recommended by the International Valuation Standards Committee and meets the requirements of MFRS 13 *Fair Value Measurements* .

The amount of rental income and expenses recorded in respect of investment properties of the Company, in the income statement is as follows:

	2018 RM'000	2017 RM'000
Rental income derived from investment properties	26,285	31,934
Direct operating expenses (including repairs and maintenance) generating rental income	(16,292)	(10,731)
	9,993	21,203

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4. INVESTMENT PROPERTIES (CONT'D.)

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Fair value disclosures for investment properties have been provided in Note 34.

The Company has determined that the highest and best use of the properties used for commercial and residential purposes is its current use.

5. PREPAID LAND LEASE PAYMENTS

	2018 RM'000	2017 RM'000
Long term leasehold land		
At 1 January	16,390	16,528
Amortisation for the year	(137)	(138)
At 31 December	16,253	16,390

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6. INVESTMENTS

	2018 (based on MFRS 9)				2017 (based on MFRS 139)			
	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
Malaysian government securities	-	7,126,271	213,644	7,339,915	-	6,403,918	53,240	6,457,158
Debt securities	194,338	34,102,927	2,028,856	36,326,121	182,143	31,796,994	1,562,582	33,541,719
Equity securities	221,451	17,357,667	3,871,298	21,450,416	192,245	19,676,540	4,932,667	24,801,452
Unit and property trust funds	-	1,934,070	143,544	2,077,614	-	2,402,746	150,881	2,553,627
Loans	2,489	6,904,066	-	6,906,555	36,555	7,064,556	-	7,101,111
Deposits with financial institutions	-	1,853,675	1,313,480	3,167,155	20,950	1,504,134	672,400	2,197,484
Investment in subsidiary:								
Collective investment schemes	425,923	-	-	425,923	407,790	-	-	407,790
	844,201	69,278,676	7,570,822	77,693,699	839,683	68,848,888	7,371,770	77,060,341
The Company's financial investments are summarised by categories as follows:								
AC (Note 6(a))	2,489	8,757,741	1,313,480	10,073,710	57,505	8,568,690	672,400	9,298,595
AFS (Note 6(b))	-	-	-	-	747,103	22,054,192	-	22,801,295
FVOCI (Note 6(b))	341,317	1,824,998	-	2,166,315	-	-	-	-
FVTPL (Note 6(c))	500,395	58,695,937	6,257,342	65,453,674	35,075	38,226,006	6,699,370	44,960,451
	844,201	69,278,676	7,570,822	77,693,699	839,683	68,848,888	7,371,770	77,060,341
The following investments mature after 12 months:								
AC	2,489	1,435,656	-	1,438,145	36,555	2,630,623	-	2,667,178
AFS	-	-	-	-	147,070	-	-	147,070
FVOCI	119,866	1,242,908	-	1,362,774	-	-	-	-
FVTPL	74,472	37,651,589	2,028,196	39,754,257	35,075	36,806,835	1,586,672	38,428,582
	196,827	40,330,153	2,028,196	42,555,176	218,700	39,437,458	1,586,672	41,242,830

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6. INVESTMENTS (CONT'D.)

(a) AC

	2018				2017			
	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
At Amortised Cost/Cost:								
Deposits with financial institutions:								
Licensed banks	-	1,853,675	1,313,480	3,167,155	20,950	1,504,134	672,400	2,197,484
Policy loans	-	4,448,049	-	4,448,049	-	4,316,851	-	4,316,851
Mortgage loans	-	507,699	-	507,699	11,640	1,008,849	-	1,020,489
Secured loans	-	1,283,222	-	1,283,222	10,007	1,274,007	-	1,284,014
Unsecured loans	2,489	685,158	-	687,647	14,908	464,849	-	479,757
	2,489	8,777,803	1,313,480	10,093,772	57,505	8,568,690	672,400	9,298,595
Provision for expected credit loss ("ECL") (Note 33(g))	-	(20,062)	-	(20,062)	-	-	-	-
	2,489	8,757,741	1,313,480	10,073,710	57,505	8,568,690	672,400	9,298,595
At Fair Value:								
Deposits with financial institutions:								
Licensed banks	-	1,853,675	1,313,480	3,167,155	20,950	1,504,134	672,400	2,197,484
Policy loans	-	4,448,049	-	4,448,049	-	4,316,851	-	4,316,851
Mortgage loans	-	513,809	-	513,809	11,825	1,027,991	-	1,039,816
Secured loans	-	1,283,222	-	1,283,222	10,007	1,274,007	-	1,284,014
Unsecured loans	2,489	722,529	-	725,018	15,615	486,931	-	502,546
	2,489	8,821,284	1,313,480	10,137,253	58,397	8,609,914	672,400	9,340,711

Included in deposits with financial institutions of the Company are short term deposits with original maturity periods of less than 3 months amounting to RM3,000,555,000 (2017: RM2,107,484,000), which have been classified as cash and cash equivalents for the purpose of the cash flow statement.

The carrying value of the deposits with financial institutions approximates fair value due to the relatively short term maturities. The carrying value of the policy loans, secured loans and unsecured loans are reasonable approximations of fair value due to the insignificant impact of discounting.

The fair values of the mortgage loans have been established by comparing current market interest rates for similar financial instruments to the rates offered when the mortgage loans were first recognised together with appropriate market credit adjustments.

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6. INVESTMENTS (CONT'D.)

(b) FVOCI (2017: AFS)

	2018 (based on MFRS 9)				2017 (based on MFRS 139)			
	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
At Fair Value:								
Equity securities:								
Quoted in Malaysia								
- Kuala Lumpur Stock Exchange	140,651	237,539	-	378,190	112,191	16,473,152	-	16,585,343
Quoted outside Malaysia								
- Singapore Exchange	24,045	108,078	-	132,123	35,305	1,433,935	-	1,469,240
- Hong Kong Exchange	56,190	122,583	-	178,773	44,455	1,569,912	-	1,614,367
- New York Stock Exchange	-	-	-	-	-	134,158	-	134,158
- Nasdaq Stock Market	-	-	-	-	-	32,115	-	32,115
Unquoted in Malaysia	565	80,285	-	80,850	-	-	-	-
Malaysian government securities	-	150,184	-	150,184	-	-	-	-
Debt securities:								
Unquoted in Malaysia	119,866	1,126,329	-	1,246,195	147,070	-	-	147,070
Unit and property trust funds:								
Quoted in Malaysia	-	-	-	-	-	602,606	-	602,606
Quoted outside Malaysia	-	-	-	-	-	1,800,140	-	1,800,140
Collective investment schemes								
- subsidiary								
Quoted in Malaysia	-	-	-	-	407,790	-	-	407,790
	341,317	1,824,998	-	2,166,315	746,811	22,046,018	-	22,792,829
At Cost:								
Equity securities:								
Unquoted in Malaysia	-	-	-	-	292	8,174	-	8,466
	341,317	1,824,998	-	2,166,315	747,103	22,054,192	-	22,801,295

6. INVESTMENTS (CONT'D.)

(b) FVOCI (2017: AFS) (CONT'D.)

During the financial year ended 31 December 2018, the Company sold listed equity securities as the underlying investments are no longer aligned with the Company's long-term investment strategy. These investments had a fair value of RM80,353,946 at the date of disposal. The cumulative gain on disposal (net of tax) of RM906,000 was reclassified from fair value reserve to retained earnings.

	2018 RM'000	2017 RM'000
Movement in impairment allowance accounts:		
Provision for impairment:		
At 1 January	528,147	407,621
Charge for the year	-	185,900
Transfer to realised gain upon disposal	-	(65,374)
Reversal due to adoption of MFRS 9	(528,147)	-
At 31 December	-	528,147

The impairment losses arose on equity securities for which there have been significant or prolonged decline in fair value.

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6. INVESTMENTS (CONT'D.)

(c) FVTPL

	2018 (based on MFRS 9)				2017 (based on MFRS 139)			
	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
At Fair Value:								
Mandatorily measured:								
Equity securities:								
Quoted in Malaysia	-	14,192,206	3,630,882	17,823,088	-	24,739	11,235	35,974
Quoted outside Malaysia	-	2,539,611	240,416	2,780,027	2	355	291	648
Unquoted in Malaysia	-	77,365	-	77,365	-	-	-	-
Debt securities:								
Quoted outside Malaysia	-	202,842	20,828	223,670	-	-	-	-
Unquoted in Malaysia	74,472	4,436,357	338,068	4,848,897	35,073	3,269,018	-	3,304,091
Unit and property trust funds:								
Quoted in Malaysia	-	487,399	112,027	599,426	-	-	-	-
Quoted outside Malaysia	-	1,446,671	31,517	1,478,188	-	-	-	-
Collective investment schemes - subsidiary								
Quoted in Malaysia	425,923	-	-	425,923	-	-	-	-
	500,395	23,382,451	4,373,738	28,256,584	35,075	3,294,112	11,526	3,340,713
Designated upon initial recognition:								
Malaysian government securities	-	6,976,087	213,644	7,189,731	-	6,403,918	-	6,403,918
Debt securities:								
Quoted outside Malaysia	-	-	-	-	-	185,608	-	185,608
Unquoted in Malaysia	-	28,251,730	1,669,960	29,921,690	-	28,255,673	-	28,255,673
Unquoted outside Malaysia	-	85,669	-	85,669	-	86,695	-	86,695
	-	35,313,486	1,883,604	37,197,090	-	34,931,894	-	34,931,894

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6. INVESTMENTS (CONT'D.)

(c) FVTPL (CONT'D.)

	2018 (based on MFRS 9)				2017 (based on MFRS 139)			
	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
Held-for-Trading:								
Equity securities:								
Quoted in Malaysia	-	-	-	-	-	-	4,833,277	4,833,277
Quoted outside Malaysia	-	-	-	-	-	-	87,864	87,864
Malaysian government securities	-	-	-	-	-	-	53,240	53,240
Debt securities:								
Quoted outside Malaysia	-	-	-	-	-	-	20,623	20,623
Unquoted in Malaysia	-	-	-	-	-	-	1,541,959	1,541,959
Unit and property trust funds:								
Quoted in Malaysia	-	-	-	-	-	-	117,418	117,418
Quoted outside Malaysia	-	-	-	-	-	-	33,463	33,463
	-	-	-	-	-	-	6,687,844	6,687,844
	500,395	58,695,937	6,257,342	65,453,674	35,075	38,226,006	6,699,370	44,960,451

6. INVESTMENTS (CONT'D.)

(d) Investment in subsidiary - collective investment scheme

	2018 RM'000	2017 RM'000
At fair value:		
FVTPL (Note 6(c))/AFS (Note 6(b))	425,923	407,790

Details of the Company's investment in subsidiary - collective investment scheme in Malaysia are as follows:

Name of wholesale unit trust fund	Principal activities	% of ownership interest held by the Company 2018	2017
Affin Hwang Wholesale Income Fund	Investment in debt securities and money market	88.89%	88.89%

The Company has determined that it has control over the Fund, based on the following rationale:

By virtue of clause 17.1.2 of the Trust Deed signed between TMF Trustees Malaysia Berhad ("the Trustee") and Affin Hwang Asset Management Berhad ("the Fund Manager"), the Unitholders of the Fund may apply to the Fund Manager to summon a meeting for any purpose, without limitation, for the purpose of requiring the retirement or removal of the Fund Manager.

The Company has determined that it is able to exert its power in order to influence returns from its investment in the Fund by virtue of clause 17.1.2 as disclosed above.

The Company by virtue of holding the units in the Fund also has exposure, or rights to variable returns from the investment.

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7. REINSURANCE ASSETS

Life Insurance Fund

	2018 RM'000	2017 RM'000
Reinsurance of insurance contracts (Note 11)	50,672	52,892

8. INSURANCE RECEIVABLES

Life Insurance Fund

	2018 RM'000	2017 RM'000
Due premiums including agents/brokers and co-insurers balances	323,610	256,153
Due from reinsurers	-	6,727
	323,610	262,880
Allowance for impairment	(3,306)	(2,140)
	320,304	260,740
Movement in impairment allowance account:		
At 1 January	2,140	2,604
Effect of adoption of MFRS 9	624	-
At 1 January (restated)	2,764	2,604
Impairment/(reversal of impairment) for the year	542	(464)
At 31 December	3,306	2,140

8. INSURANCE RECEIVABLES (CONT'D.)

Life Insurance Fund (Cont'd.)

The carrying amounts disclosed above approximate fair values due to their relatively short term nature.

The Company's amounts due from reinsurers that have been offset against amount due to reinsurers are as follows:

	Gross carrying amount RM'000	Gross amounts offset in the balance sheet RM'000	Net amounts in the balance sheet RM'000
31 December 2017			
Premiums ceded	(20,651)	-	(20,651)
Commissions receivable	-	1,761	1,761
Claims recoveries	-	25,617	25,617
	(20,651)	27,378	6,727

9. OTHER RECEIVABLES

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
At 31 December 2018				
Non-financial assets				
Prepayments	-	14,650	-	14,650
Financial assets				
Income due and accrued	2,291	615,530	72,094	689,915
Other receivables	1,636	1,963	-	3,599
Amount due from:				
- related companies	4,897	-	-	4,897
- holding company	23	-	-	23
	8,847	617,493	72,094	698,434
Allowance for impairment	-	(830)	-	(830)
	8,847	616,663	72,094	697,604
Total other receivables	8,847	631,313	72,094	712,254
Receivable after 12 months	61	5,010	-	5,071

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9. OTHER RECEIVABLES (CONT'D.)

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
At 31 December 2017				
Non-financial assets				
Prepayments	-	12,043	-	12,043
Financial assets				
Income due and accrued	35,572	703,657	44,992	784,221
Progress payment for property under development (Note 4)	-	108,815	-	108,815
Other receivables	62	3,856	-	3,918
Amount due from:				
- related companies	3,089	-	-	3,089
- holding company	1	-	-	1
	38,724	816,328	44,992	900,044
Allowance for impairment	-	(751)	-	(751)
	38,724	815,577	44,992	899,293
Total other receivables	38,724	827,620	44,992	911,336
Receivable after 12 months	60	114,018	-	114,078

9. OTHER RECEIVABLES (CONT'D.)

Related companies in these financial statements refer to companies within Oversea-Chinese Banking Corporation Limited ("OCBC Group"). The amounts due from related companies and holding company are unsecured, interest-free and are repayable on demand.

	2018 RM'000	2017 RM'000
Movement in impairment allowance account:		
Individual impairment:		
At 1 January	751	777
Impairment/(reversal of impairment) for the year	79	(26)
At 31 December	830	751

There were no collectively impaired other receivables for the years ended 31 December 2018 and 2017.

The carrying amounts disclosed above approximate fair values due to their relatively short term nature.

10. SHARE CAPITAL

	2018		2017	
	No. of shares ('000)	RM'000	No. of shares ('000)	RM'000
Ordinary shares				
At beginning and end of year	100,000	100,000	100,000	100,000

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11. INSURANCE CONTRACT LIABILITIES

Life Insurance Fund

	2018 Gross RM'000	2018 Reinsurance RM'000	2018 Net RM'000	2017 Gross RM'000	2017 Reinsurance RM'000	2017 Net RM'000
Provision for outstanding claims	9,658,952	(17,167)	9,641,785	8,931,744	(23,290)	8,908,454
Actuarial liabilities	50,657,674	(33,505)	50,624,169	49,578,048	(29,602)	49,548,446
Unallocated surplus	8,130,220	-	8,130,220	3,505,344	-	3,505,344
Available-for-sale fair value reserves	-	-	-	5,369,996	-	5,369,996
Net asset value attributable to unitholders	7,626,167	-	7,626,167	7,338,526	-	7,338,526
	76,073,013	(50,672)	76,022,341	74,723,658	(52,892)	74,670,766

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11. INSURANCE CONTRACT LIABILITIES (CONT'D.)

	Gross			Reinsurance			
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net RM'000
At 1 January 2018	64,394,225	10,329,433	74,723,658	(5,540)	(47,352)	(52,892)	74,670,766
Effects of adoption of MFRS 9	44,965	-	44,965	-	-	-	44,965
	64,439,190	10,329,433	74,768,623	(5,540)	(47,352)	(52,892)	74,715,731
Premiums received	3,212,545	1,285,365	4,497,910	(72,984)	(134,576)	(207,560)	4,290,350
Liabilities paid for death, maturities, surrenders, benefits and claims	(4,149,829)	(491,643)	(4,641,472)	29,429	65,193	94,622	(4,546,850)
Policy movements	903,365	478,030	1,381,395	-	(6,718)	(6,718)	1,374,677
Interest rate	(711)	(21,486)	(22,197)	-	182	182	(22,015)
Adjustments due to changes in assumptions:							
Mortality/morbidity	(318,019)	(72,843)	(390,862)	-	5,005	5,005	(385,857)
Expenses	125,909	68,082	193,991	-	(14)	(14)	193,977
Lapse	(1,031)	(15,291)	(16,322)	-	(2,356)	(2,356)	(18,678)
Others	(46,087)	(20,112)	(66,199)	-	(3)	(3)	(66,202)
Model change	-	(180)	(180)	-	-	-	(180)
Claims benefit experience variation	686,363	40,845	727,208	47,642	71,420	119,062	846,270
Net asset value attributable to unitholders	-	(506,079)	(506,079)	-	-	-	(506,079)
Unallocated surplus	147,197	-	147,197	-	-	-	147,197
At 31 December 2018	64,998,892	11,074,121	76,073,013	(1,453)	(49,219)	(50,672)	76,022,341

Policy benefits bear interest at 5% per annum.

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11. INSURANCE CONTRACT LIABILITIES (CONT'D.)

	Gross			Reinsurance			
	With DPF RM'000	**Without DPF RM'000**	**Total RM'000**	**With DPF RM'000**	**Without DPF RM'000**	**Total RM'000**	**Net RM'000**
At 1 January 2017	59,993,215	8,562,644	68,555,859	(10,825)	(72,858)	(83,683)	68,472,176
Premiums received	3,556,456	1,121,282	4,677,738	(71,132)	(113,974)	(185,106)	4,492,632
Liabilities paid for death, maturities, surrenders, benefits and claims	(4,009,484)	(464,024)	(4,473,508)	26,377	61,151	87,528	(4,385,980)
Policy movements	2,140,824	233,939	2,374,763	-	14,976	14,976	2,389,739
Interest rate	697	74,868	75,565	-	(309)	(309)	75,256
Adjustments due to changes in assumptions:							
Mortality/morbidity	(38,142)	(30,030)	(68,172)	-	10,217	10,217	(57,955)
Expenses	(39,562)	(23,683)	(63,245)	-	22	22	(63,223)
Lapse	(58)	3,681	3,623	-	-	-	3,623
Others	(1,777,207)	(8,292)	(1,785,499)	-	-	-	(1,785,499)
Model change	(6,817)	(2,952)	(9,769)	-	-	-	(9,769)
Claims benefit experience variation	700,875	14,201	715,076	50,040	53,423	103,463	818,539
Net asset value attributable to unitholders	-	847,799	847,799	-	-	-	847,799
Available-for-sale fair value reserves	1,943,130	-	1,943,130	-	-	-	1,943,130
Unallocated surplus	2,085,842	-	2,085,842	-	-	-	2,085,842
Deferred tax effects:							
Available-for-sale fair value reserves	(155,544)	-	(155,544)	-	-	-	(155,544)
At 31 December 2017	64,394,225	10,329,433	74,723,658	(5,540)	(47,352)	(52,892)	74,670,766

Policy benefits bear interest at 5% per annum.

12. DERIVATIVES

	Asset		Liability	
	Notional Principal RM'000	Fair Value RM'000	Notional Principal RM'000	Fair Value RM'000
31 December 2018				
Life Insurance Fund				
Derivatives held for trading:				
Currency swaps	105,800	5,353	60,220	24,849
Interest rate swap	1,000	1	-	-
	106,800	5,354	60,220	24,849
31 December 2017				
Life Insurance Fund				
Derivatives held for trading:				
Currency swaps	105,800	8,520	60,220	47,131
Forward currency	84,812	3,634	-	-
	190,612	12,154	60,220	47,131
Unit-linked				
Derivatives held for trading:				
Forward currency	21,203	909	-	-
	211,815	13,063	60,220	47,131

13. AGENTS' RETIREMENT BENEFITS

Life Insurance Fund

	2018 RM'000	2017 RM'000
At 1 January	829,311	813,130
Provision for the year	79,853	115,902
Utilised during the year	(80,883)	(99,721)
At 31 December	828,281	829,311
Payable after 12 months	534,712	553,490

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14. DEFERRED TAXATION

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
At 1 January 2018	199,600	505,746	66,383	771,729
Recognised in:				
Effects of adoption of MFRS 9	11,717	7,198	-	18,915
Income statement (Note 25)	32,888	(142,174)	(62,924)	(172,210)
Other comprehensive income	(16,845)	-	-	(16,845)
At 31 December 2018	227,360	370,770	3,459	601,589
At 1 January 2017	164,710	342,987	15,438	523,135
Recognised in:				
Income statement (Note 25)	35,090	7,215	50,945	93,250
Other comprehensive income	(200)	-	-	(200)
Insurance contract liabilities	-	155,544	-	155,544
At 31 December 2017	199,600	505,746	66,383	771,729

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
Presented after appropriate offsetting as follows:				
At 31 December 2018				
Deferred tax liabilities	229,224	372,375	3,459	605,058
Deferred tax assets	(1,864)	(1,605)	-	(3,469)
	227,360	370,770	3,459	601,589
At 31 December 2017				
Deferred tax liabilities	201,457	547,977	66,383	815,817
Deferred tax assets	(1,857)	(42,231)	-	(44,088)
	199,600	505,746	66,383	771,729

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14. DEFERRED TAXATION (CONT'D.)

The components and movements of deferred tax liabilities during the financial year prior to offsetting are as follows:

Deferred Tax Liabilities

	Fair value of investment assets RM'000	Unallocated Surplus of Non-Participating Funds RM'000	Total RM'000
Shareholder's Fund			
At 1 January 2018	5,911	195,546	201,457
Effects of adoption of MFRS 9	14,714	(2,915)	11,799
Recognised in other comprehensive income	(17,088)	161	(16,927)
Recognised in income statement	857	32,038	32,895
At 31 December 2018	4,394	224,830	229,224
At 1 January 2017	5,780	161,611	167,391
Recognised in other comprehensive income	(200)	-	(200)
Recognised in income statement	331	33,935	34,266
At 31 December 2017	5,911	195,546	201,457

	Fair value of investment properties RM'000	Fair value of investment assets RM'000	Accelerated capital allowance on property and equipment RM'000	Total RM'000
Life Insurance Fund				
At 1 January 2018	18,979	525,499	3,499	547,977
Effects of adoption of MFRS 9	-	9,301	-	9,301
Recognised in income statement	(615)	(182,954)	(1,334)	(184,903)
At 31 December 2018	18,364	351,846	2,165	372,375

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14. DEFERRED TAXATION (CONT'D.)

Deferred Tax Liabilities (Cont'd.)

	Fair value of investment properties RM'000	Fair value of investment assets RM'000	Accelerated capital allowance on property and equipment RM'000	Total RM'000
Life Insurance Fund (Cont'd.)				
At 1 January 2017	19,006	349,636	6,678	375,320
Recognised in insurance contract liabilities	-	155,544	-	155,544
Recognised in income statement	(27)	20,319	(3,179)	17,113
At 31 December 2017	18,979	525,499	3,499	547,977

	Fair value of investment assets RM'000	Total RM'000
Unit-linked		
At 1 January 2018	66,383	66,383
Recognised in income statement	(62,924)	(62,924)
At 31 December 2018	3,459	3,459
At 1 January 2017	15,438	15,438
Recognised in income statement	50,945	50,945
At 31 December 2017	66,383	66,383

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14. DEFERRED TAXATION (CONT'D.)

The components and movements of deferred tax assets during the financial year prior to offsetting are as follows:

Deferred Tax Assets

Shareholder's Fund	Accretion of discounts on investments RM'000	Provision for impairment of investments RM'000	Total RM'000
At 1 January 2018	(1,857)	-	(1,857)
Effects of adoption of MFRS 9	-	(82)	(82)
Recognised in income statement	(7)	-	(7)
Recognised in comprehensive income	-	82	82
At 31 December 2018	(1,864)	-	(1,864)
At 1 January 2017	(1,861)	(820)	(2,681)
Recognised in income statement	4	820	824
At 31 December 2017	(1,857)	-	(1,857)

Life Insurance Fund	Provision for impairment of investments RM'000
At 1 January 2018	(42,231)
Effects of adoption of MFRS 9	(2,103)
Recognised in income statement	42,729
At 31 December 2018	(1,605)
At 1 January 2017	(32,333)
Recognised in income statement	(9,898)
At 31 December 2017	(42,231)

15. OTHER FINANCIAL LIABILITIES

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
31 December 2018				
Deposits received from reinsurers	-	478	-	478
Outstanding purchases of investment securities	-	41,394	33,440	74,834
	-	41,872	33,440	75,312
31 December 2017				
Deposits received from reinsurers	-	534	-	534
Outstanding purchases of investment securities	24,031	48,152	16,587	88,770
	24,031	48,686	16,587	89,304

The carrying amounts disclosed above approximate fair values at the reporting date due to their relatively short term nature.

16. INSURANCE PAYABLES

	2018 RM'000	2017 RM'000
Life Insurance Fund		
Due to reinsurers	72,243	34,912
Due to agents and intermediaries	270,533	227,975
	342,776	262,887

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16. INSURANCE PAYABLES (CONT'D.)

The carrying amounts disclosed above approximate fair value at the reporting date.

The Company's amount due to reinsurers that have been offset against amount due from reinsurers are as follows:

	Gross carrying amount RM'000	Gross amounts offset in the balance sheet RM'000	Net amounts in the balance sheet RM'000
31 December 2018			
Premiums ceded	183,759	-	183,759
Commissions receivable	-	(16,764)	(16,764)
Claims recoveries	-	(94,752)	(94,752)
	183,759	(111,516)	72,243
31 December 2017			
Premiums ceded	121,696	-	121,696
Commissions receivable	-	(21,908)	(21,908)
Claims recoveries	-	(64,876)	(64,876)
	121,696	(86,784)	34,912

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17. OTHER PAYABLES

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
31 December 2018				
Non-financial liabilities				
Accrued expenses	14	112,477	75	112,566
Premium suspense	-	29,010	-	29,010
	14	141,487	75	141,576
Financial liabilities				
Deposits from tenants	-	18,954	-	18,954
Dividends payable	3,167	-	-	3,167
Advance premium	-	227,262	-	227,262
Amount due to ultimate holding company	983	-	-	983
Amount due to intermediate holding company	30,310	-	-	30,310
Others	-	153,411	283	153,694
	34,460	399,627	283	434,370
Total payables	34,474	541,114	358	575,946

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17. OTHER PAYABLES (CONT'D.)

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
31 December 2017				
Non-financial liabilities				
Accrued expenses	13	110,513	74	110,600
Premium suspense	-	27,949	-	27,949
	13	138,462	74	138,549
Financial liabilities				
Deposits from tenants	-	17,097	-	17,097
Dividends payable	133,687	-	-	133,687
Advance premium	-	177,793	-	177,793
Amount due to ultimate holding company	731	-	-	731
Amount due to intermediate holding company	14,015	-	-	14,015
Others	-	144,543	297	144,840
	148,433	339,433	297	488,163
Total payables	148,446	477,895	371	626,712

The amounts due to intermediate holding and ultimate holding companies are unsecured, interest-free and are repayable on demand.

18. NET EARNED PREMIUMS

Life Insurance Fund

	2018 RM'000	2017 RM'000
(a) Gross earned premiums		
Life insurance contracts	8,076,172	7,615,384
(b) Earned premiums ceded to reinsurers		
Life insurance contracts	(207,560)	(185,106)
Net earned premiums	7,868,612	7,430,278

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19. INVESTMENT INCOME

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2018			
Rental income from:			
- investment properties	-	26,285	26,285
- owner occupied properties	-	30,178	30,178
Financial assets at FVTPL			
- mandatorily measured:			
Interest income	4,380	257,949	262,329
Dividend income:			
- equity securities quoted in Malaysia	16,576	671,166	687,742
- equity securities quoted outside Malaysia	-	195,343	195,343
- equity securities unquoted in Malaysia	-	1,065	1,065
- designated upon initial recognition:			
Interest income	-	1,560,910	1,560,910
Financial assets at FVOCI:			
Interest income	6,960	75,775	82,735
Dividend income*:			
- equity securities quoted in Malaysia	6,387	10,040	16,427
- equity securities quoted outside Malaysia	5,106	12,101	17,207
- equity securities unquoted in Malaysia	25	1,249	1,274
LAR interest income	115	429,665	429,780
Cash and bank balances interest income	1,513	108,802	110,315
Gross investment income	41,062	3,380,528	3,421,590
Less: investment expenses	-	(58,023)	(58,023)
	41,062	3,322,505	3,363,567

* During the year ended 31 December 2018, the dividend income were in respect of equity investments measured at FVOCI which were:

	RM'000
Derecognised during the reporting year	1,378
Held at the end of the reporting year	33,530
	34,908

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19. INVESTMENT INCOME (CONT'D.)

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2017			
Rental income from:			
- investment properties	-	31,934	31,934
- owner occupied properties	-	31,399	31,399
Financial assets at FVTPL			
- held for trading purposes:			
Interest income	1,970	221,006	222,976
Dividend income:			
- equity securities quoted in Malaysia	-	136,783	136,783
- equity securities quoted outside Malaysia	-	2,597	2,597
- designated upon initial recognition:			
Interest income	-	1,548,570	1,548,570
Financial assets at AFS:			
Interest income	18,688	-	18,688
Dividend income:			
- equity securities quoted in Malaysia	7,118	515,810	522,928
- equity securities quoted outside Malaysia	2,149	135,192	137,341
- equity securities unquoted in Malaysia	25	6,997	7,022
LAR interest income	2,051	445,656	447,707
Cash and bank balances interest income	3,647	75,602	79,249
Gross investment income	35,648	3,151,546	3,187,194
Less: investment expenses	-	(50,482)	(50,482)
	35,648	3,101,064	3,136,712

Included in rental income from properties is contingent rent for the year amounting to RM181,845 (2017: RM739,766). Contingent rental arrangements are computed based on sales or profit achieved by tenants.

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20. REALISED GAINS AND LOSSES

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2018			
Property and equipment			
Realised losses	-	(1,453)	(1,453)
FVOCI financial assets*			
Realised gains:			
Debt securities:			
- unquoted in Malaysia	784	4,653	5,437
Total realised gains for FVOCI financial assets	784	4,653	5,437
FVTPL financial assets			
Realised (losses)/gains:			
Mandatorily measured:			
Debt securities:			
- unquoted in Malaysia	(272)	(1,482)	(1,754)
Equity securities:			
- quoted in Malaysia	-	(380,625)	(380,625)
- quoted outside Malaysia	-	(45,471)	(45,471)
	(272)	(427,578)	(427,850)
Designated upon initial recognition:			
Debt securities:			
- unquoted in Malaysia	-	2,269	2,269
- unquoted outside Malaysia	-	(366)	(366)
	-	1,903	1,903
Total realised losses for FVTPL financial assets	(272)	(425,675)	(425,947)
Total realised gains/(losses) for financial assets	512	(422,475)	(421,963)

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20. REALISED GAINS AND LOSSES (CONT'D.)

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2017			
Property and equipment			
Realised gains	-	2	2
AFS financial assets*			
Realised gains:			
Equity securities:			
- quoted in Malaysia	3,618	91,099	94,717
- quoted outside Malaysia	8,467	276,974	285,441
Debt securities:			
- quoted outside Malaysia	256	-	256
- unquoted in Malaysia	3,808	-	3,808
Total realised gains for AFS financial assets	16,149	368,073	384,222
FVTPL financial assets			
Realised gains/(losses):			
Mandatorily measured:			
Debt securities:			
- unquoted in Malaysia	-	1,248	1,248
Equity securities:			
- quoted in Malaysia	1	427	428
	1	1,675	1,676
Designated upon initial recognition:			
Debt securities:			
- unquoted in Malaysia	-	(393)	(393)
- unquoted outside Malaysia	-	(1,013)	(1,013)
- quoted outside Malaysia	-	(19,760)	(19,760)
	-	(21,166)	(21,166)
Held-for-trading:			
Debt securities:			
- unquoted in Malaysia	-	585	585
Equity securities:			
- quoted in Malaysia	-	(82,029)	(82,029)
- quoted outside Malaysia	-	1,017	1,017
	-	(80,427)	(80,427)
Total realised gains/(losses) for FVTPL financial assets	1	(99,918)	(99,917)

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20. REALISED GAINS AND LOSSES (CONT'D.)

2017 (Cont'd.)	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
Total realised gains for financial assets	16,150	268,157	284,307

* Included in realised gains/(losses) from FVOCI (2018)/AFS (2017) financial assets of the Life Insurance Fund is net realised gain of RM4,653,078 (2017: realised gain of RM44,784,646) arising from the Non-participating fund.

21. FAIR VALUE GAINS AND LOSSES

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2018			
Investment properties (Note 4)	-	(7,553)	(7,553)
Financial investments - FVTPL:			
- mandatorily measured	1,737	(1,951,223)	(1,949,486)
- designated upon initial recognition	-	327,606	327,606
	1,737	(1,631,170)	(1,629,433)
2017			
Investment properties (Note 4)	-	(2,416)	(2,416)
Financial investments - FVTPL:			
- mandatorily measured	1,088	53,038	54,126
- designated upon initial recognition	-	324,047	324,047
- held-for-trading	-	894,118	894,118
	1,088	1,268,787	1,269,875

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22. FEES AND COMMISSION INCOME

Life Insurance Fund

	2018 RM'000	2017 RM'000
Reinsurance commission income	16,631	17,363

23. NET BENEFITS AND CLAIMS

Life Insurance Fund

	2018 RM'000	2017 RM'000
(a) Gross benefits and claims paid		
Life insurance contracts:		
Death	(448,048)	(422,700)
Maturity	(571,053)	(552,652)
Surrender	(1,894,194)	(1,791,799)
Cash bonus	(1,392,305)	(1,337,210)
Others	(1,626,882)	(1,439,928)
	(5,932,482)	(5,544,289)
(b) Claims ceded to reinsurers		
Life insurance contracts	94,623	87,527
(c) Gross change in contract liabilities		
Life insurance contracts	(577,182)	(3,665,137)
(d) Change in contract liabilities ceded to reinsurers		
Life insurance contracts	3,903	(24,906)

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24. MANAGEMENT EXPENSES

	Note	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2018				
Employee benefits expense	24(a)	240	215,534	215,774
Non-executive directors' remuneration	24(b)	-	1,345	1,345
Auditors' remuneration:				
- statutory audits		11	651	662
- regulatory related fees		-	339	339
- other services		-	58	58
Depreciation of property and equipment	3	-	50,275	50,275
Amortisation of prepaid land lease payments	5	-	137	137
Rental of properties		31	327	358
Operating lease payments		-	799	799
Advertising and promotion		641	29,272	29,913
Finance charges		162	57,117	57,279
Group service fees		-	23,943	23,943
IT and computer expenses		-	37,746	37,746
Policyholder expenses		-	9,311	9,311
Postal and telecommunication		-	12,696	12,696
Printing and stationery		-	2,801	2,801
Professional fees		1	15,886	15,887
Repairs and maintenance		-	3,798	3,798
Transport and travelling		-	2,988	2,988
Utilities		-	6,219	6,219
GST expense		6	35,733	35,739
Others		25,520	4,550	30,070
		26,612	511,525	538,137

24. MANAGEMENT EXPENSES (CONT'D.)

2018 (Cont'd.)

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
(a) Employee Benefits Expense			
Wages and salaries	240	174,276	174,516
Short term accumulating compensated absences	-	140	140
Social security contributions	-	1,368	1,368
Defined contribution plans - EPF	-	28,866	28,866
Other employee benefits expense	-	10,884	10,884
	240	215,534	215,774

(b) CEO and Directors' Remuneration

The details of remuneration received by CEO and Directors during the year are as follows:

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
CEO:			
Salaries and other emoluments	-	3,053	3,053
Bonus	-	1,030	1,030
Estimated money value of benefits-in-kind	-	23	23
	-	4,106	4,106
Non-executive:			
Fees	-	1,345	1,345
Total directors' remuneration	-	5,451	5,451
Represented by:			
Directors' fees	-	1,345	1,345
Amount included in employee benefits expense	-	4,106	4,106
	-	5,451	5,451

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24. MANAGEMENT EXPENSES (CONT'D.)

	Note	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2017				
Employee benefits expense	24(a)	-	226,952	226,952
Non-executive directors' remuneration	24(b)	-	1,213	1,213
Auditors' remuneration:				
- statutory audits		11	533	544
- regulatory related fees		-	235	235
- other services		-	55	55
Depreciation of property and equipment	3	-	64,366	64,366
Amortisation of prepaid land lease payments	5	-	138	138
Rental of properties		-	339	339
Operating lease payments		-	1,295	1,295
Advertising and promotion		684	15,166	15,850
Finance charges		-	53,470	53,470
Group service fees		-	44,275	44,275
IT and computer expenses		-	32,027	32,027
Policyholder expenses		-	8,316	8,316
Postal and telecommunication		-	14,966	14,966
Printing and stationery		-	3,187	3,187
Professional fees		1	10,634	10,635
Repairs and maintenance		-	3,281	3,281
Transport and travelling		-	2,696	2,696
Utilities		-	6,061	6,061
GST expense		133	72,694	72,827
Others		12,357	9,772	22,129
		13,186	571,671	584,857

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24. MANAGEMENT EXPENSES (CONT'D.)

2017 (Cont'd.)

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
(a) Employee Benefits Expense			
Wages and salaries	-	183,305	183,305
Short term accumulating compensated absences	-	158	158
Social security contributions	-	1,321	1,321
Defined contribution plans - EPF	-	29,972	29,972
Other employee benefits expense	-	12,196	12,196
	-	226,952	226,952

(b) CEO and Directors' Remuneration

The details of remuneration received by CEO and Directors during the year are as follows:

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
CEO:			
Salaries and other emoluments	-	2,067	2,067
Bonus	-	792	792
Estimated money value of benefits-in-kind	-	23	23
	-	2,882	2,882
Non-executive:			
Fees	-	1,213	1,213
Total directors' remuneration	-	4,095	4,095

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24. MANAGEMENT EXPENSES (CONT'D.)

(b) CEO and Directors' Remuneration (Cont'd.)

	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Total RM'000
Represented by:			
Directors' fees	-	1,213	1,213
Amount included in employee benefits expense	-	2,882	2,882
	-	4,095	4,095

The Directors' fees are subject to the recommendation of the Board Nominations and Remuneration Committee to the Board of Directors for endorsement and approval by the shareholder at the AGM.

The number of Directors whose total remuneration received from the Company during the year fall within the following bands is analysed below:

	Number of Directors	
	2018	2017
Executive Director		
Below RM50,000	1	1

	Number of Directors	
	2018	2017
Non-Executive Directors		
Below RM50,000	-	1
RM100,001 - RM150,000	1	1
RM150,001 - RM200,000	1	1
RM200,001 - RM250,000	5	4

24. MANAGEMENT EXPENSES (CONT'D.)

(b) CEO and Directors' Remuneration (Cont'd.)

				2018		
Name		**Salaries RM'000**	**Bonus RM'000**	**Benefits in kind RM'000**	**Fees RM'000**	**Total RM'000**
Y Bhg Dato Koh Yaw Hui	CEO	3,053	1,030	23	-	4,106
Total CEO's remuneration		3,053	1,030	23	-	4,106
	Status of directorship					
Mr Norman Ka Cheung Ip	Non - Executive	-	-	-	210	210
Mr Tan Yam Pin	Non - Executive	-	-	-	166	166
Mr Koh Poh Tiong	Non - Executive	-	-	-	108	108
Y Bhg Datuk Kamaruddin bin Taib	Non - Executive	-	-	-	217	217
Y Bhg Dato' Yeoh Beow Tit	Non - Executive	-	-	-	228	228
Mr Ng Hon Soon	Non - Executive	-	-	-	216	216
Mdm Tan Fong Sang	Non - Executive	-	-	-	200	200
Total Non-Executive Directors' remuneration		-	-	-	1,345	1,345
Total remuneration		3,053	1,030	23	1,345	5,451

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24. MANAGEMENT EXPENSES (CONT'D.)

(b) CEO and Directors' Remuneration (Cont'd.)

Name		Salaries RM'000	Bonus RM'000	2017 Benefits in kind RM'000	Fees RM'000	Total RM'000
Y Bhg Dato Koh Yaw Hui	CEO	2,067	792	23	-	2,882
Total CEO's remuneration		2,067	792	23	-	2,882
	Status of directorship					
Mr Norman Ka Cheung Ip	Non - Executive	-	-	-	219	219
Mr Tan Yam Pin	Non - Executive	-	-	-	162	162
Mr Koh Poh Tiong	Non - Executive	-	-	-	23	23
Y Bhg Datuk Kamaruddin bin Taib	Non - Executive	-	-	-	223	223
Y Bhg Dato' Yeoh Beow Tit	Non - Executive	-	-	-	224	224
Mr Ng Hon Soon	Non - Executive	-	-	-	214	214
Mdm Tan Fong Sang	Non - Executive	-	-	-	148	148
Total Non-Executive Directors' remuneration		-	-	-	1,213	1,213
Total remuneration		2,067	792	23	1,213	4,095

25. TAXATION

	Note	2018 RM'000	2017 RM'000
Taxation of life insurance business	(a)	48,920	320,070
Taxation of the Company	(b)	226,471	201,290
		275,391	521,360

(a) Taxation of life insurance business

	Note	2018 RM'000	2017 RM'000
Current income tax:			
Malaysian income tax		253,685	262,880
Under/(over) provided in prior years		28	(1,072)
Tax on foreign dividend income		305	102
		254,018	261,910
Deferred tax:			
Relating to origination and reversal of temporary differences			
- Life Insurance Fund	14	(142,174)	7,215
- Unit-linked	14	(62,924)	50,945
		48,920	320,070

The Malaysian tax charge on the life business is based on the method prescribed under the Income Tax Act 1967 for life business.

The income tax for the life fund is calculated based on tax rate of 8% (2017: 8%) of the assessable investment income net of allowable deductions for the financial year.

(b) Taxation of the Company

	2018 RM'000	2017 RM'000
Current income tax:		
Malaysian income tax	233,444	200,001
Underprovided in prior years	-	5,275
Double taxation relief	(39,861)	(39,076)
	193,583	166,200
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 14)	32,888	35,090
	226,471	201,290

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25. TAXATION (CONT'D.)

(b) Taxation of the Company (Cont'd.)

The current income tax is calculated at 24% (2017: 24%) of the estimated assessable profit for the financial year.

The deferred tax for the Shareholder's Fund is calculated based on the tax rate of 24% (2017: 24%).

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

	2018 RM'000	2017 RM'000
Profit before taxation	1,112,215	993,854
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	266,931	238,525
Income not subject to tax	(4,979)	(7,375)
Expenses not deductible for tax purposes	4,380	3,941
Underprovided in prior years	-	5,275
Double taxation relief	(39,861)	(39,076)
Tax expense for the year	226,471	201,290

26. EARNINGS PER SHARE - BASIC AND DILUTED

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

	2018	2017
Profit attributable to ordinary equity holder (RM'000)	885,744	792,564
Number of shares in issue ('000)	100,000	100,000
Basic earnings per share (sen)	886	793

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

27. DIVIDENDS

	2018 RM'000	2017 RM'000
Recognised during the financial year:		
Dividend on ordinary shares:		
- Final single tier dividend for 2017 of RM4.25 (2016: RM3.40) per share	425,000	340,000
- Interim single tier dividend for 2018 of RM1.00 (2017: RM1.25) per share	100,000	125,000
	525,000	465,000

At the forthcoming Annual General Meeting, a second and final single tier dividend in respect of the current financial year ended 31 December 2018 on 100,000,005 ordinary shares amounting to a total dividend of RM653,000,033 (RM6.53 per share) will be proposed for shareholder's approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in the shareholder's equity as an appropriation of retained profits in the next financial year ending 31 December 2019.

28. CASH USED IN OPERATING ACTIVITIES

	Note	2018 RM'000	2017 RM'000
Profit before taxation		1,112,215	993,854
Adjustments for:			
Taxation of life insurance business	25(a)	48,920	320,070
Investment income	19	(3,421,590)	(3,187,194)
Realised losses/(gains) recorded in the income statement	20	420,389	(284,307)
Fair value losses/(gains) recorded in the income statement	21	1,629,433	(1,269,875)
Depreciation of property and equipment	3, 24	50,275	64,366
Amortisation of prepaid land lease payments	5, 24	137	138

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28. CASH USED IN OPERATING ACTIVITIES (CONT'D.)

	Note	2018 RM'000	2017 RM'000
Impairment loss on/(write-back of):			
Insurance and other receivables	8, 9	621	(490)
Property and equipment	3	61	799
Investments		(7,921)	185,900
Provision for agents' retirement benefits	13	79,853	115,902
Property and equipment written-off	3, 20	189	2
Investment properties written-off	4, 20	1,385	-
Realised foreign exchange gain on receipt of dividend		32	(2)
Realised foreign exchange gain on disposal of investments		(15,759)	(153,282)
Unrealised exchange loss/(gain) on derivatives		3,341	(207,349)
Unrealised exchange (gain)/loss on bonds		(6,975)	141,482
Cash flow before working capital changes		(105,394)	(3,279,986)
Changes in working capital:			
Purchases of FVTPL financial investments		(18,556,570)	(17,838,365)
Proceeds from disposals/maturities of FVTPL financial investments		17,365,889	18,495,001
Purchases of AFS financial investments		-	(10,359,186)
Purchases of FVOCI financial investments		(1,710,059)	-
Proceeds from disposals/maturities of AFS financial investments		-	5,530,052
Proceeds from disposals/maturities of FVOCI financial investments		1,086,029	-
Decrease in LAR		97,893	527,414
Decrease in reinsurance assets		2,220	30,792
(Increase)/decrease in insurance receivables		(60,730)	10,082
Decrease in other receivables		99,677	375,816
Increase in insurance contract liabilities		1,304,389	4,356,474
(Decrease)/increase in other financial liabilities		(13,992)	37,919
Increase in insurance payables		79,889	38,008
(Decrease)/increase in other payables		(50,766)	31,984
Cash used in operating activities		(461,525)	(2,043,995)

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

29. OPERATING LEASE ARRANGEMENTS

(a) The Company as lessee

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

The lease payments recognised in the income statement during the financial year are disclosed in Note 24.

The future minimum lease payments payable under operating leases contracted for as at the reporting date but not recognised as payables, are as follows:

	2018 RM'000	2017 RM'000
Not later than 1 year	(692)	(577)
Later than 1 year and not later than 5 years	(763)	(236)
	(1,455)	(813)

(b) The Company as lessor

The Company, as lessor, has entered into operating lease agreements on its investment properties portfolio and certain self-occupied properties. These leases have remaining lease terms of between 1 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions and certain contracts include contingent rental arrangements computed based on sales achieved by tenants.

The rental income including contingent rent recognised in the income statement during the financial year are disclosed in Note 19.

29. OPERATING LEASE ARRANGEMENTS (CONT'D.)

(b) The Company as lessor (cont'd.)

The future minimum lease payments receivable under operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	2018 RM'000	2017 RM'000
Not later than 1 year	46,810	42,494
Later than 1 year and not later than 5 years	31,962	33,837
	78,772	76,331

30. CAPITAL COMMITMENTS

	2018 RM'000	2017 RM'000
Capital expenditure		
Approved and contracted for:		
- Investment properties	102,310	432,360
- Property and equipment	30,932	38,119
Approved but not contracted for:		
Investment properties	14,916	128,402
	148,158	598,881

Included in the above disclosure are the following commitments by the Company to third-parties for purchase of properties in accordance with the Sales and Purchase Agreements ("SPAs").

	Property type	Total commitment RM'million	Deposit paid * RM'million	Date of SPA
(a)	Investment property	Nil (2017: 431)	Nil (2017: 109)	12 February 2015

* Being progress payment for property under development as disclosed in Note 9.

As stipulated in the SPAs, the commitment amount will be paid to the third-parties upon completion of construction of the property. The property has been completed and fully paid in 2018.

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31. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year:

	2018 RM'000	2017 RM'000
Transactions with related parties during the year:		
Income/(expense):		
Property rentals received (note i)		
- OCBC Bank (Malaysia) Berhad	839	821
- Great Eastern General Insurance (Malaysia) Berhad	3,116	3,042
- Great Eastern Takaful Berhad	1,399	1,365
Service charges paid (note ii)		
- OCBC Bank (Malaysia) Berhad	(50,851)	(47,089)
- E2 Power Sdn Bhd	(6,107)	(6,515)
- E2 Power Pte Ltd	(3,174)	(1,101)
- Pacific Mutual Fund Bhd	(353)	(369)
- Lion Global Investor Ltd	(50)	(150)
Service charges received (note ii)		
- Great Eastern General Insurance (Malaysia) Berhad	7,057	6,878
- Great Eastern Takaful Berhad	11,053	11,546
Premium paid (note iii)		
- Great Eastern General Insurance (Malaysia) Berhad	(2,399)	(2,513)

31. RELATED PARTY DISCLOSURES (CONT'D.)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year (Cont'd.):

	2018 RM'000	2017 RM'000
Transactions with related parties during the year (Cont'd.):		
Income/(expense):		
Premium received (note iii)		
- Great Eastern General Insurance (Malaysia) Berhad	972	286
- E2 Power Sdn Bhd	3,246	1,487
- OCBC Bank (Malaysia) Berhad	68,440	48,763
- OCBC Al-Amin Bank Berhad	644	272
- PAC Lease Berhad	604	408
- Pacific Mutual Fund Bhd	22	25
- Key Management Personnel	1,618	587
Claims paid		
- Key Management Personnel	(19)	(21)
Commission received		
- Great Eastern General Insurance (Malaysia) Berhad	348	378
Commission fees paid		
- OCBC Bank (Malaysia) Berhad	(39,766)	(35,390)
- OCBC Securities Private Limited	(175)	(817)
- PAC Lease Berhad	(50)	(31)
Interest income (note iv)		
- OCBC Bank (Malaysia) Berhad	89,140	73,522
- PAC Lease Berhad	-	118
Dividend income (note v)		
- Affin Hwang Wholesale Income Fund	16,576	2,598

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31. RELATED PARTY DISCLOSURES (CONT'D.)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year (Cont'd.):

	2018 RM'000	2017 RM'000
Transactions with related parties during the year (Cont'd.):		
Income/(expense):		
Bank charges		
- OCBC Bank (Malaysia) Berhad	(2,126)	(2,517)
Other services		
- OCBC Bank (Malaysia) Berhad	(390)	(42)
Policy payments		
- OCBC Bank (Malaysia) Berhad	(34)	(597)
Employee Share Purchase Plan		
- Oversea-Chinese Banking Corporation Ltd.	(822)	(707)
Employee Share Option Scheme paid		
- Oversea-Chinese Banking Corporation Ltd.	(423)	(305)
Deferred Share Plan		
- Oversea-Chinese Banking Corporation Ltd.	(1,341)	(1,120)
Charges for group services (note vi)		
- The Great Eastern Life Assurance Company Limited	(23,324)	(43,172)
Disposal of investments to		
- Great Eastern General Insurance (Malaysia) Berhad	27,854	40,015
- Great Eastern Takaful Berhad	-	20,493
Purchase of investments from		
- Great Eastern General Insurance (Malaysia) Berhad	(124,736)	(89,751)
- Great Eastern Takaful Berhad	-	(46,647)

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31. RELATED PARTY DISCLOSURES (CONT'D.)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year (Cont'd.):

	2018 RM'000	2017 RM'000
Balances with related parties at year end:		
Due from/(due to):		
Investment in other debt securities		
- OCBC Bank (Malaysia) Berhad	100,709	102,614
Investment in wholesale unit trust fund		
- Affin Hwang Wholesale Income Fund	425,923	407,790
Cash and bank balances		
- OCBC Bank (Malaysia) Berhad	772,726	106,574
Fixed deposits, structured deposits and repurchase agreements		
- OCBC Bank (Malaysia) Berhad	1,031,328	1,705,200
- OCBC Al-Amin Bank Berhad	697,680	110,000
Due from/(due to):		
Amount due from related companies:		
- Far Island Bay Sdn Bhd	61	59
- Great Eastern General Insurance (Malaysia) Berhad	808	554
- Great Eastern Takaful Berhad	3,891	2,425
- P.T. Great Eastern Life Indonesia	137	51
Amount due to ultimate holding company:		
- Oversea-Chinese Banking Corporation Ltd	(983)	(731)
Amount due to intermediate holding company:		
- The Great Eastern Life Assurance Company Limited	(30,310)	(14,015)
Amount due to holding company:		
- Great Eastern Capital (Malaysia) Sdn Bhd	(3,144)	(133,686)

31. RELATED PARTY DISCLOSURES (CONT'D.)

(a) Related companies are companies within the OCBC Group:

(i) Rental of property to related parties are made according to normal market prices, terms and conditions.

(ii) Payment of service charges to/from related parties are made according to normal market prices.

(iii) The sale and purchase of insurance policies to/from related companies are made according to normal market prices and at terms and conditions no more favourable than those to other customers and employees.

(iv) The interest income arose mainly from investment in fixed deposits, repurchase agreements, other debt securities and medium term notes which are made according to prevailing market rates, terms and conditions.

(v) The dividend income arose from investment in wholesale unit trust fund which are made according to prevailing market terms and conditions.

(vi) Payment of group function costs based on allocation rates governed by corporate service agreement and in line with Malaysian Transfer Pricing Guidelines and Organisation for Economic Co-operation and Development ("OECD") Transfer Pricing Guidelines. Group function services are derived from immediate parent company in Singapore.

The table below shows the breakdown by type of services received and geographical location for inter company charges:

Geographical Location	Type of Services	2018 RM	2017 RM
Singapore	Group service charges for services rendered, which include those in respect of finance, legal, actuarial, support, human resources, operations, investment management, IT, internal audit and risk management services.	23,324	43,172
		23,324	43,172

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31. RELATED PARTY DISCLOSURES (CONT'D.)

(b) Compensation of Key Management Personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2018 RM'000	2017 RM'000
Non-Executive Directors' fees	1,345	1,213
Short-term employee benefits	12,634	11,966
Post-employments benefits:		
Defined contribution plan - EPF	1,953	1,764
Share-based payment	2,623	1,509
	18,555	16,452
Share-based payment (in units)	129,342	153,609
Included in the total key management personnel remuneration are:		
CEO's and Directors' remuneration (Note 24(b))	5,451	4,095

Key management personnel are 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 Directors, CEO, Senior Management Team, Chief Internal Auditor and Head of Compliance of the Company.

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32. FINANCIAL INSTRUMENTS BY CATEGORY

	Note	FVTPL RM'000	FVOCI RM'000	AC RM'000	Sub-total RM'000	Assets not in scope of MFRS 9 RM'000	Total RM'000
2018							
Assets							
Property and equipment	3	-	-	-	-	457,457	457,457
Investment properties	4	-	-	-	-	1,137,600	1,137,600
Prepaid land lease payments	5	-	-	-	-	16,253	16,253
Investments	6	65,453,674	2,166,315	10,073,710	77,693,699	-	77,693,699
Derivatives	12	5,354	-	-	5,354	-	5,354
Reinsurance assets	7	-	-	-	-	50,672	50,672
Insurance receivables	8	-	-	320,304	320,304	-	320,304
Other receivables	9	-	-	697,604	697,604	14,650	712,254
Cash and bank balances		-	-	812,773	812,773	-	812,773
Total assets		65,459,028	2,166,315	11,904,391	79,529,734	1,676,632	81,206,366

32. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D.)

	Note	FVTPL RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 9 RM'000	Total RM'000
2018 (Cont'd.)						
Liabilities						
Insurance contract liabilities	11	-	-	-	76,073,013	76,073,013
Derivatives	12	24,849	-	24,849	-	24,849
Agents' retirement benefits	13	-	-	-	828,281	828,281
Deferred tax liabilities	14	-	-	-	601,589	601,589
Other financial liabilities	15	-	75,312	75,312	-	75,312
Insurance payables	16	-	342,776	342,776	-	342,776
Provision for taxation		-	-	-	188,974	188,974
Other payables	17	-	434,370	434,370	141,576	575,946
Total liabilities		24,849	852,458	877,307	77,833,433	78,710,740

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32. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D.)

	Note	FVTPL RM'000	AFS RM'000	AC RM'000	Sub-total RM'000	Assets not in scope of MFRS 139 RM'000	Total RM'000
2017							
Assets							
Property and equipment	3	-	-	-	-	463,258	463,258
Investment properties	4	-	-	-	-	601,421	601,421
Prepaid land lease payments	5	-	-	-	-	16,390	16,390
Investments	6	44,960,451	22,801,295	9,298,595	77,060,341	-	77,060,341
Derivatives	12	13,063	-	-	13,063	-	13,063
Reinsurance assets	7	-	-	-	-	52,892	52,892
Insurance receivables	8	-	-	260,740	260,740	-	260,740
Other receivables	9	-	-	899,293	899,293	12,043	911,336
Cash and bank balances		-	-	197,888	197,888	-	197,888
Total assets		44,973,514	22,801,295	10,656,516	78,431,325	1,146,004	79,577,329

32. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D.)

	Note	FVTPL RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000
2017 (Cont'd.)						
Liabilities						
Insurance contract liabilities	11	-	-	-	74,723,658	74,723,658
Derivatives	12	47,131	-	47,131	-	47,131
Agents' retirement benefits	13	-	-	-	829,311	829,311
Deferred tax liabilities	14	-	-	-	771,729	771,729
Other financial liabilities	15	-	89,304	89,304	-	89,304
Insurance payables	16	-	262,887	262,887	-	262,887
Provision for taxation		-	-	-	97,382	97,382
Other payables	17	-	488,163	488,163	138,549	626,712
Total liabilities		47,131	840,354	887,485	76,560,629	77,448,114

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES

Governance Framework

Managing risk is an integral part of the Company's core business. As stated in the Enterprise Risk Management ("ERM") Framework, the Company shall:

- Operate within parameters and limits that have been set based on the risk appetite approved by the Board; and

- Pursue appropriate risk-adjusted returns.

The Risk Management Department spearheads the development and implementation of the ERM Framework for the Company.

The Board Risk Management Committee ("BRMC"), constituted in 2003, provides the oversight on the risk management initiatives. Detailed risk management and oversight activities are undertaken by the following Management Committees comprising the Chief Executive Officer and key Senior Management Executives:

- Senior Management Team ("SMT")
- Asset-Liability Committee ("ALC")
- Product Development Committee ("PDC")
- IT Steering Committee ("ITSC")
- Financial Crime Committee ("FCC")

The SMT is responsible for providing leadership, direction and functional oversight with regards to all matters of the Company. The SMT is also responsible for ensuring compliance and alignment with governance and oversight frameworks, i.e. standards and guidelines.

The ALC is responsible for balance sheet management. Specifically, the ALC reviews and formulates technical frameworks, policies and methodologies relating to balance sheet management.

The PDC oversees the product development and launch process. In addition, the PDC regularly reviews and monitors the performance of new and existing products.

The ITSC is responsible for the oversight of technology and information risks and any relevant regulatory and compliance risks within the Company.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Governance Framework (Cont'd.)

The FCC provides an independent oversight of fraud investigation and anti-money laundering/counter financing of terrorism (AML/CFT) review, and ensures that investigations and reviews are conducted in a manner that is fair, consistent and transparent.

On 3 August 2016, Bank Negara Malaysia (“BNM”) issued a policy document on Corporate Governance which sets out a framework of principles to strengthen board composition rules; heighten expectations on the board and senior management to foster a corporate culture that promotes ethical, prudent and professional behaviour; and expand requirements on compensation structures to ensure that employees’ incentives are aligned with prudent risk-taking, and clarifies expectations in respect of group-wide governance. The Company is working towards full compliance with the policy document by 2019.

Regulatory Framework

Insurers are regulated by the Financial Services Act 2013 (“FSA”) which came into force on 30 June 2013, and other relevant regulations issued by regulators from time to time.

The Life Insurance and Family Takaful Framework issued by Bank Negara Malaysia on 23 November 2015 aims to promote innovation and a more competitive market supported by higher levels of professionalism and transparency in the provision of insurance products and services. These objectives are met through gradual removal of limits on operational costs to promote product innovation while preserving policy value, diversified distribution channels to widen outreach, and strengthened market conduct to enhance consumer protection. The regulator has issued policy documents and standards to give effect to each initiative over the course of the Framework’s development plan, beginning 1 December 2015.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Capital Management Framework

The Company's capital management policy is to create shareholders' value, deliver sustainable returns to shareholders, maintain a strong capital position with sufficient buffer to meet obligations to policyholders and regulatory requirements, and to make strategic investments for business growth. The Company has had no significant changes in the policies and processes relating to its capital structure during the year.

Under the Risk-Based Capital Framework for Insurers ("RBC"), the insurer has to maintain a capital adequacy level that is commensurate with its risk profiles. The Capital Adequacy Ratios of the Company remained at well above the minimum capital requirement of 130% under the RBC Framework as prescribed by BNM.

The Internal Capital Adequacy Assessment Process ("ICAAP") Framework came into effect on 1 September 2012. Under this Framework, the Company has to ensure adequate capital to meet its capital requirements on an ongoing basis. The key elements supporting the Framework include Board and Senior Management oversight, comprehensive risk assessment, individual target capital level and stress testing, sound capital management as well as ongoing monitoring, reporting and review of capital position. Capital management and contingencies policies were further developed and refined under the Framework to outline the approaches and principles under which the Company's capital will be monitored and managed, as well as the corrective actions to be implemented at various critical capital levels. In addition, a risk appetite statement has been established to outline the Company's capacity to take on risks to achieve its business objectives while managing the expectations of key stakeholders.

The following sections provide details regarding the exposure to the key risks faced by the Company and the objectives, policies and processes for the management of these risks. There has been no major change to the Company's exposure to these key risks or the manner in which it manages and measures these risks.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Insurance Risk

The principal activity of the Company is in the underwriting of life insurance business including investment-linked business.

The Company's underwriting strategy is designed to ensure that these risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification of policyholders across industry sectors and geography, the selective use of medical screening in order to ensure that product pricing takes into account the current health conditions and family medical history, regular review of the actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are also set in place to enforce appropriate risk selection criteria.

Insurance risk comprises both actuarial and underwriting risks resulting from the pricing and acceptance of insurance contracts. The risks arise when actual claims experience is different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims. Assumptions that may cause insurance risks to be underestimated include assumptions on policy lapses, mortality, morbidity and expenses.

The Company utilises reinsurance arrangements to manage the mortality and morbidity risks. The Company’s reinsurance management strategy and policy are reviewed annually by the SMT, BRMC, and the Board as appropriate. Reinsurance structures are set based on the type of risk. Catastrophe reinsurance is procured to limit catastrophic losses.

Only reinsurers meeting a minimum credit rating of Standard & Poor's "A-", or its equivalent, including internal credit rating, are considered when deciding on which reinsurers to reinsure the Company’s risk. The Company limits its risk to any one reinsurer by ceding different risks to different reinsurers or to a panel of reinsurers.

The SMT reviews the actual experience of mortality, morbidity, lapses and surrenders, as well as expenses to ensure that the policies, guidelines and limits put in place to manage these risks remain adequate and appropriate.

A substantial portion of the Company’s life insurance funds is participating in nature. In the event of volatile investment climate and/or unusual claims experience, the insurer has the option of revising the bonuses payable to the policyholders.

For non-participating funds, the risk is that the guaranteed policy benefits must be met even when the investment markets perform poorly, or claims experience is higher than expected.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Insurance Risk (Cont'd.)

For investment-linked business, the risk exposure for the Company is predominantly to the underwriting aspect as investment risks are borne by the policyholders.

Stress Testing ("ST") is performed in accordance with BNM requirements. The purpose of the ST is to test the solvency of the life insurance funds under the various scenarios according to regulatory guidelines on stress testing, simulating drastic changes in major parameters such as new business volume, investment scenarios, mortality/morbidity patterns and lapse rates.

Table 33(A): The table below shows the concentration of actuarial liabilities and net asset value attributable to the policyholders by type of contract as at the reporting date:

	Gross			Reinsurance			
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net Total RM'000
2018							
Whole life	36,807,562	7,784,199	44,591,761	-	-	-	44,591,761
Endowment	9,828,675	2,207,279	12,035,954	-	-	-	12,035,954
Term	(1,064)	324,236	323,172	-	(33,505)	(33,505)	289,667
Accident and health	4,926	138,211	143,137	-	-	-	143,137
Annuity	-	95,083	95,083	-	-	-	95,083
Others	859,158	235,576	1,094,734	-	-	-	1,094,734
Total	47,499,257	10,784,584	58,283,841	-	(33,505)	(33,505)	58,250,336

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Insurance Risk (Cont'd.)

Table 33(A): The table below shows the concentration of actuarial liabilities and net asset value attributable to the policyholders by type of contract as at the reporting date: (Cont'd.)

	Gross			Reinsurance			
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net Total RM'000
2017							
Whole life	35,705,927	7,560,127	43,266,054	-	-	-	43,266,054
Endowment	9,778,800	1,786,086	11,564,886	-	-	-	11,564,886
Term	(1,139)	330,495	329,356	-	(29,602)	(29,602)	299,754
Accident and health	4,993	118,984	123,977	-	-	-	123,977
Annuity	-	71,028	71,028	-	-	-	71,028
Others	1,347,249	214,024	1,561,273	-	-	-	1,561,273
Total	46,835,830	10,080,744	56,916,574	-	(29,602)	(29,602)	56,886,972

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Insurance Risk (Cont'd.)

Sensitivity analysis

The sensitivity analysis below shows the impact of change in key parameters on the value of gross and net insurance contract liabilities, surplus of life insurance funds, profit before taxation and shareholder's equity.

Sensitivity analysis produced is based on parameters set out as follows:

	Change in Assumptions
(a) Scenario 1 – Mortality and major illness	+ 25% for all future years
(b) Scenario 2 – Mortality and major illness	- 25% for all future years
(c) Scenario 3 – Health and disability	+ 25% for all future years
(d) Scenario 4 – Health and disability	- 25% for all future years
(e) Scenario 5 – Lapse and surrender rates	+ 25% for all future years
(f) Scenario 6 – Lapse and surrender rates	- 25% for all future years
(g) Scenario 7 – Expenses	+ 30% for all future years

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Sensitivity analysis (Cont'd.)

Insurance Risk (Cont'd.)

Table 33(B): The table below shows the insurance risk sensitivity analysis on the gross and net insurance contract liabilities, surplus of life insurance funds, profit before taxation and shareholder's equity.

	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000	Impact on Surplus RM'000	Impact on Profit Before Taxation RM'000	Impact on Equity* RM'000
	← Increase/(Decrease)		→	← (Decrease)/Increase	→
2018					
Scenario 1 – Mortality and major illness	1,542,512	1,513,041	(1,513,041)	(306,209)	(232,719)
Scenario 2 – Mortality and major illness	(1,617,066)	(1,587,980)	1,587,980	267,490	203,293
Scenario 3 – Health and disability	197,400	194,145	(194,145)	(56,758)	(43,136)
Scenario 4 – Health and disability	(187,720)	(184,469)	184,469	45,695	34,728
Scenario 5 – Lapse and surrender rates	(605,265)	(604,533)	604,533	(18,781)	(14,273)
Scenario 6 – Lapse and surrender rates	719,093	718,317	(718,317)	25,841	19,639
Scenario 7 – Expenses	426,598	426,598	(426,598)	(87,858)	(66,772)
2017					
Scenario 1 – Mortality and major illness	1,593,353	1,550,439	(1,550,439)	(319,405)	(242,747)
Scenario 2 – Mortality and major illness	(1,640,758)	(1,621,272)	1,621,272	269,681	204,957
Scenario 3 – Health and disability	209,091	194,130	(194,130)	(53,870)	(40,942)
Scenario 4 – Health and disability	(179,585)	(187,614)	187,614	45,883	34,871
Scenario 5 – Lapse and surrender rates	(627,810)	(636,564)	636,564	(21,541)	(16,371)
Scenario 6 – Lapse and surrender rates	767,603	752,984	(752,984)	29,114	22,127
Scenario 7 – Expenses	376,174	364,682	(364,682)	(66,880)	(50,829)

* Impact on equity is after taxation of 24% (2017: 24%).

The above analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net insurance contract liabilities, surplus of life insurance fund, profit before taxation and shareholder's equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear. The method used and significant assumptions made for deriving sensitivity information did not change from the previous year.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risk

Market risk arises when the market value of assets and liabilities do not move consistently as financial markets change. Changes in interest rates, foreign exchange rates, equity prices and alternative investment prices can impact present and future investment earnings of the insurance operations as well as shareholder's equity.

The Company is exposed to market risk in the Shareholder's Fund as well as market mismatch risk between the assets and liabilities of the Life Insurance Funds. The ALC actively manages market risk through setting and monitoring of the investment policy, asset allocation, portfolio construction, risk measurement and approving hedging strategies. In the case of the investment linked funds, investment risks are borne by the policyholders. Nevertheless, the revenues of the insurance operations are linked to the value of the underlying funds since this has an impact on the level of fund management fees earned.

Investment limits are monitored at various levels to ensure that all investment activities are conducted within the Company's risk appetite and in line with the Company's risk management principles and philosophies. Compliance with established limits forms an integral part of the risk governance and financial reporting framework. The approach adopted by the Company in managing the various types of risk, including interest rate risk, foreign exchange risk, equity price risk, credit spread risk, alternative investment risk, liquidity risk, credit risk and concentration risk, is briefly described as follows:

(a) Interest rate risk (including asset liability mismatch)

The Company is exposed to interest rate risk through (i) investments in fixed income instruments and (ii) insurance contract liabilities in the Life Insurance Funds. Since the Shareholder's Fund has exposure to investments in fixed income instruments but no exposure to insurance contract liabilities, it will incur an economic loss when interest rates rise. For the Life Insurance Funds, given the long duration of contract liabilities and the uncertainty of cash flows, it is difficult to source assets that will perfectly match the insurance contract liabilities. This results in a net interest rate risk or asset liability mismatch risk, which is managed and monitored by the ALC. The Life Insurance Funds are likely to incur economic loss when interest rates drop since the duration of insurance contract liabilities are generally longer than the duration of the fixed income assets (Refer to Table 33(F)).

(b) Foreign currency risk

Investments denominated in foreign currencies are limited to 10% of individual funds regardless of country, subject to the foreign investments being in jurisdictions with sovereign ratings at least equivalent to that of Malaysia, as prescribed by the regulator. (Refer to Table 33(C)).

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(b) Foreign currency risk (Cont'd.)

Table 33(C): The table below shows the foreign exchange position of the Company's financial/insurance assets and liabilities by major currencies.

	RM RM'000	SGD RM'000	USD RM'000	Others RM'000	Total RM'000
2018					
Assets					
Property and equipment	457,457	-	-	-	457,457
Investment properties	1,137,600	-	-	-	1,137,600
Prepaid land lease payments	16,253	-	-	-	16,253
Investments					
Malaysian government securities	7,339,915	-	-	-	7,339,915
Debt securities	36,016,782	-	309,339	-	36,326,121
Equity securities	18,359,493	1,437,899	161,348	1,491,676	21,450,416
Unit and property trust funds	599,426	111,960	14,034	1,352,194	2,077,614
Investment in subsidiary:					
Collective investment schemes	425,923	-	-	-	425,923
Loans	6,906,555	-	-	-	6,906,555
Deposits with financial institutions	3,167,155	-	-	-	3,167,155
Derivatives	1	-	5,353	-	5,354
Reinsurance assets	50,672	-	-	-	50,672
Insurance receivables	320,304	-	-	-	320,304
Other receivables	705,578	4,243	2,295	138	712,254
Cash and bank balances	777,164	6,149	8,358	21,102	812,773
Total assets	76,280,278	1,560,251	500,727	2,865,110	81,206,366
Liabilities					
Insurance contract liabilities	76,073,013	-	-	-	76,073,013
Derivatives	-	-	24,849	-	24,849
Agents' retirement benefits	828,281	-	-	-	828,281
Deferred tax liabilities	601,589	-	-	-	601,589
Other financial liabilities	75,312	-	-	-	75,312
Insurance payables	342,776	-	-	-	342,776
Provision for taxation	188,974	-	-	-	188,974
Other payables	575,946	-	-	-	575,946
Total liabilities	78,685,891	-	24,849	-	78,710,740

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(b) Foreign currency risk (Cont'd.)

Table 33(C): The table below shows the foreign exchange position of the Company's financial/insurance assets and liabilities by major currencies. (Cont'd.)

	RM RM'000	SGD RM'000	USD RM'000	Others RM'000	Total RM'000
2017					
Assets					
Property and equipment	463,258	-	-	-	463,258
Investment properties	601,421	-	-	-	601,421
Prepaid land lease payments	16,390	-	-	-	16,390
Investments					
Malaysian government securities	6,457,158	-	-	-	6,457,158
Debt securities	33,248,793	-	292,926	-	33,541,719
Equity securities	21,463,060	1,460,792	194,740	1,682,860	24,801,452
Unit and property trust funds	720,024	232,672	30,786	1,570,145	2,553,627
Investment in subsidiary: Collective investment schemes	407,790	-	-	-	407,790
Loans	7,101,111	-	-	-	7,101,111
Deposits with financial institutions	2,197,484	-	-	-	2,197,484
Derivatives	-	-	13,063	-	13,063
Reinsurance assets	52,892	-	-	-	52,892
Insurance receivables	260,740	-	-	-	260,740
Other receivables	903,090	5,922	1,948	376	911,336
Cash and bank balances	122,607	6,320	3,786	65,175	197,888
Total assets	74,015,818	1,705,706	537,249	3,318,556	79,577,329
Liabilities					
Insurance contract liabilities	74,723,658	-	-	-	74,723,658
Derivatives	-	-	47,131	-	47,131
Agents' retirement benefits	829,311	-	-	-	829,311
Deferred tax liabilities	771,729	-	-	-	771,729
Other financial liabilities	89,304	-	-	-	89,304
Insurance payables	262,887	-	-	-	262,887
Provision for taxation	97,382	-	-	-	97,382
Other payables	626,712	-	-	-	626,712
Total liabilities	77,400,983	-	47,131	-	77,448,114

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risk (Cont'd.)

(c) Equity price risk

Exposure to equity price risk exists in assets. Asset exposure exists through equity investment, where the Company, through its investments, bears the volatility in returns and investment performance risk.

A robust monitoring process is in place to manage equity risk by having appropriate risk management strategies to limit the downside risk at certain pre-determined levels. Certain investment limits are set as a percentage of equity holdings. (Refer to Table 33(F)).

(d) Credit spread risk

Exposure to credit spread risk exists in the Company's investments in corporate bonds. Credit spread is the difference between the corporate yields against the risk-free rate of the same tenure. When spreads widen, it generally implies that the market is factoring a deterioration in the creditworthiness of the bonds. A widening in credit spreads will result in a fall in the values of the Company's bond portfolio.

(e) Alternative investment risk

The Company is exposed to alternative investment risk through investments in real estate. Due to the special nature of this risk, every property deal is reviewed by the BRMC regardless of its value, but subject to the approval by the Board. The relevant Management Committee assists in deliberating matters relating to property, including property investment policy, risk management, performance, expenditure, operations and facilities management.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risk (Cont'd.)

(f) Liquidity risk

Liquidity risk arises when a company is unable to meet the cash flow needs of its financial liabilities, or if the assets backing the liabilities cannot be sold quickly enough to meet its financial obligations. For an insurance company, the greatest liquidity needs typically arise from its insurance liabilities. Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

Expected liquidity demands are managed through a combination of treasury, investment and asset-liability management practices, which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored and a reasonable amount of assets are kept in liquid instruments at all times.

The projected cash flows from the in-force insurance contract liabilities consist of renewal premiums, expenses, commissions, claims, maturities and surrenders. Renewal premiums, expenses, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain although it has been quite stable over the past several years.

Unexpected liquidity demands are managed through a combination of product design, investment diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in certain insurance contracts also protects the Company from losses due to unexpected surrender trends as well as reduces the sensitivity of surrenders to changes in interest rates (Refer to Table 33(D1) and (D2)).

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(f) Liquidity risk (Cont'd.)

Maturity profiles

Table 33(D1): The following table shows the maturity profile of the Company's financial/insurance liabilities and the expected recovery or settlement of financial/insurance assets based on the remaining undiscounted contractual cash flows.

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

Unit-linked liabilities are repayable or transferable on demand and are included in the "up to a year" column.

	Carrying value RM'000	Up to a Year* RM'000	1 - 5 Years RM'000	> 5 Years RM'000	No maturity date RM'000	Total RM'000
2018						
Investments:						
AC	10,073,710	4,321,770	1,032,375	653,284	4,448,049	10,455,478
FVOCI	2,166,315	118,521	718,125	1,304,107	769,936	2,910,689
FVTPL	65,453,674	4,862,473	18,505,946	38,129,557	23,175,942	84,673,918
Derivatives	5,354	-	5,354	-	-	5,354
Reinsurance assets	50,672	11,826	10,251	11,428	17,167	50,672
Insurance receivables	320,304	320,304	-	-	-	320,304
Other receivables	697,604	594,584	5,071	-	97,949	697,604
Cash and bank balances	812,773	812,773	-	-	-	812,773
Total undiscounted financial/insurance assets	79,580,406	11,042,251	20,277,122	40,098,376	28,509,043	99,926,792

* Expected utilisation or settlement within 12 months from the reporting date.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(f) Liquidity risk (Cont'd.)

Maturity profiles (Cont'd.)

Table 33(D1): The following table shows the maturity profile of the Company's financial/insurance liabilities and the expected recovery or settlement of financial/insurance assets based on the remaining undiscounted contractual cash flows. (Cont'd.)

	Carrying value RM'000	Up to a Year* RM'000	1 - 5 Years RM'000	> 5 Years RM'000	No maturity date RM'000	Total RM'000
2018 (Cont'd.)						
Insurance contract liabilities:						
With DPF	64,998,892	1,370,390	6,939,826	39,189,042	17,499,634	64,998,892
Without DPF	11,074,121	8,756,813	95,069	1,932,703	289,536	11,074,121
Derivatives	24,849	-	24,849	-	-	24,849
Other financial liabilities	75,312	74,834	478	-	-	75,312
Insurance payables	342,776	276,478	66,298	-	-	342,776
Other payables	434,370	415,415	18,954	-	-	434,369
Total undiscounted financial/insurance liabilities	76,950,320	10,893,930	7,145,474	41,121,745	17,789,170	76,950,319
Total liquidity surplus/(gap)	2,630,086	148,321	13,131,648	(1,023,369)	10,719,873	22,976,473

* Expected utilisation or settlement within 12 months from the reporting date.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(f) Liquidity risk (Cont'd.)

Maturity profiles (Cont'd.)

Table 33(D1): The following table shows the maturity profile of the Company's financial/insurance liabilities and the expected recovery or settlement of financial/insurance assets based on the remaining undiscounted contractual cash flows. (Cont'd.)

	Carrying value RM'000	Up to a Year* RM'000	1 - 5 Years RM'000	> 5 Years RM'000	No maturity date RM'000	Total RM'000
2017						
Investments:						
AC	9,298,595	2,467,759	2,224,642	796,141	4,316,851	9,805,393
AFS	22,801,295	9,385	116,531	52,116	22,654,224	22,832,256
FVTPL	44,960,451	3,662,575	17,498,772	37,473,286	5,072,022	63,706,655
Derivatives	13,063	4,543	8,520	-	-	13,063
Reinsurance assets	52,892	4,255	12,617	12,730	23,290	52,892
Insurance receivables	260,740	260,740	-	-	-	260,740
Other receivables	899,293	690,916	114,078	-	94,299	899,293
Cash and bank balances	197,888	197,888	-	-	-	197,888
Total undiscounted financial/insurance assets	78,484,217	7,298,061	19,975,160	38,334,273	32,160,686	97,768,180

* Expected utilisation or settlement within 12 months from the reporting date.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(f) Liquidity risk (Cont'd.)

Maturity profiles (Cont'd.)

Table 33(D1): The following table shows the maturity profile of the Company's financial/insurance liabilities and the expected recovery or settlement of financial/insurance assets based on the remaining undiscounted contractual cash flows. (Cont'd.)

	Carrying value RM'000	Up to a Year* RM'000	1 - 5 Years RM'000	> 5 Years RM'000	No maturity date RM'000	Total RM'000
2017 (Cont'd.)						
Insurance contract liabilities:						
With DPF	64,394,231	1,081,425	6,092,471	39,661,935	17,558,400	64,394,231
Without DPF	10,329,427	8,292,795	60,571	1,727,378	248,683	10,329,427
Derivatives	47,131	-	47,131	-	-	47,131
Other financial liabilities	89,304	88,770	534	-	-	89,304
Insurance payables	262,887	227,975	34,912	-	-	262,887
Other payables	488,163	471,066	17,097	-	-	488,163
Total undiscounted financial/insurance liabilities	75,611,143	10,162,031	6,252,716	41,389,313	17,807,083	75,611,143
Total liquidity surplus/(gap)	2,873,074	(2,863,970)	13,722,444	(3,055,040)	14,353,603	22,157,037

* Expected utilisation or settlement within 12 months from the reporting date.

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(f) Liquidity risk (Cont'd.)

Maturity analysis on expected maturity bases

Table 33(D2): The following table shows the current/non-current classification of assets and liabilities of the Company.

	Current* RM'000	Non-current RM'000	Unit-linked RM'000	Total RM'000
2018				
Property and equipment	-	457,457	-	457,457
Investment properties	-	1,137,600	-	1,137,600
Prepaid lease payments	-	16,253	-	16,253
Investments:				
AC	7,341,281	1,418,949	1,313,480	10,073,710
FVOCI	33,605	2,132,710	-	2,166,315
FVTPL	21,470,271	37,726,061	6,257,342	65,453,674
Derivatives	-	5,354	-	5,354
Reinsurance assets	28,993	21,679	-	50,672
Insurance receivables	320,304	-	-	320,304
Other receivables	635,089	5,071	72,094	712,254
Cash and bank balances	798,242	-	14,531	812,773
Total assets	30,627,785	42,921,134	7,657,447	81,206,366
Insurance contract liabilities:				
With DPF	18,870,024	46,128,868	-	64,998,892
Without DPF	1,420,182	2,027,772	7,626,167	11,074,121
Derivatives	-	24,849	-	24,849
Agents' retirement benefits	293,569	534,712	-	828,281
Deferred tax liabilities	598,130	-	3,459	601,589
Other financial liabilities	41,394	478	33,440	75,312
Insurance payables	276,478	66,298	-	342,776
Provision for taxation	179,224	-	9,750	188,974
Other payables	556,634	18,954	358	575,946
Total liabilities	22,235,635	48,801,931	7,673,174	78,710,740

* Expected utilisation or settlement within 12 months from the reporting date.

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(f) Liquidity risk (Cont'd.)

Maturity analysis on expected maturity bases (Cont'd.)

Table 33(D2): The following table shows the current/non-current classification of assets and liabilities of the Company. (Cont'd.)

	Current* RM'000	Non-current RM'000	Unit-linked RM'000	Total RM'000
2017				
Property and equipment	-	463,258	-	463,258
Investment properties	-	601,421	-	601,421
Prepaid lease payments	-	16,390	-	16,390
Investments:				
AC	1,642,178	6,984,017	672,400	9,298,595
AFS	22,654,225	147,070	-	22,801,295
FVTPL	1,419,171	36,841,909	6,699,371	44,960,451
Derivatives	3,634	8,520	909	13,063
Reinsurance assets	27,545	25,347	-	52,892
Insurance receivables	260,740	-	-	260,740
Other receivables	752,266	114,078	44,992	911,336
Cash and bank balances	193,900	-	3,988	197,888
Total assets	26,953,659	45,202,010	7,421,660	79,577,329
Insurance contract liabilities:				
With DPF	18,639,825	45,754,406	-	64,394,231
Without DPF	1,202,952	1,787,949	7,338,526	10,329,427
Derivatives	-	47,131	-	47,131
Agents' retirement benefits	275,821	553,490	-	829,311
Deferred tax liabilities	705,347	-	66,382	771,729
Other financial liabilities	72,183	534	16,587	89,304
Insurance payables	227,975	34,912	-	262,887
Provision for taxation	81,821	-	15,561	97,382
Other payables	609,244	17,097	371	626,712
Total liabilities	21,815,168	48,195,519	7,437,427	77,448,114

* Expected utilisation or settlement within 12 months from the reporting date.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risk (Cont'd.)

(g) Credit risk

Credit risk is the risk that one party to a financial contract will cause financial loss to the other party by failing to discharge an obligation. The Company is exposed to credit risk mainly through (i) investment in cash, deposits and bonds, (ii) corporate lending activities, (iii) exposure to counterparty's credit in derivatives transactions and reinsurance contracts and (iv) non-payment of premiums. For all four types of exposures, financial loss may materialise as a result of credit default by the borrower or counterparty. For investment in bonds, financial loss may materialise as a result of the widening credit spread or downgrade of credit rating.

The task of evaluating and monitoring credit risk arising from financial instruments is undertaken by the Credit Risk Committee ("CRC"), which in turn reports to the ALC. The Company has internal limits by issuer or counterparty and by credit ratings. These limits are actively monitored to manage the credit and concentration risk. These limits are reviewed on a regular basis. The creditworthiness of reinsurers, issuers and banks is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information (Refer to Table 33(E1) and (E2)).

Reinsurance arrangement is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year.

Credit risk in respect of customer balances incurred on non-payment of premiums predominantly persists during the grace period specified in the policy document until the policy is either paid up or terminated. Credit risk in respect of group insurance outstanding premium is being actively monitored and guided by strict credit control guidelines.

For corporate lending, the amount and type of collateral required depends on the assessment of the credit risk of the counterparty. Credit risk is mitigated by entering into collateral agreements and collaterals are revalued on a regular basis. The Company monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation, whenever applicable. The fair value of collateral, held by the Company as a lender, for which it is entitled to sell or pledge in the event of default is as follows:

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risk (Cont'd.)

(g) Credit risk (Cont'd.)

RM'000	Type of Collateral	Carrying Amount of Loans	Fair Value of Collateral
2018			
Mortgage loans	Properties	507,699	1,111,125
Secured loans			
- Vehicle loans	Vehicle	2,798	2,798
- Government guaranteed loans	Nil	1,280,424	-
Policy loans	Cash value of policies	4,448,049	9,354,204
		6,238,970	10,468,127
2017			
Mortgage loans	Properties	1,020,489	1,884,376
Secured loans			
- Vehicle loans	Vehicle	3,202	3,202
- Government guaranteed loans	Nil	1,280,811	-
Policy loans	Cash value of policies	4,316,851	9,040,049
		6,621,353	10,927,627

Transactions are conducted under terms and conditions that are usual and customary to standard securities borrowing and lending activities.

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

Table 33(E1): The table below shows the maximum exposure to credit risk for the components of the Balance Sheet. For derivatives, the fair value shown on the Balance Sheet represents the current risk exposure but not the maximum risk exposure that would arise in the future as a result of the change in value.

	Note	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
2018					
LAR at amortised cost:	6(a)				
Deposits with financial institutions		-	1,853,675	1,313,480	3,167,155
Policy loans		-	4,448,049	-	4,448,049
Mortgage loans		-	507,699	-	507,699
Secured loans		-	1,283,222	-	1,283,222
Unsecured loans		2,489	685,158	-	687,647
FVOCI financial investments:	6(b)				
Malaysian government securities		-	150,184	-	150,184
Debt securities		119,866	1,126,329	-	1,246,195
Financial investments at FVTPL:	6(c)				
Malaysian government securities		-	6,976,087	213,644	7,189,731
Debt securities		74,472	32,976,598	2,028,856	35,079,926
Derivatives	12	-	5,354	-	5,354
Reinsurance assets	7	-	50,672	-	50,672
Insurance receivables	8	-	320,304	-	320,304
Other receivables	9	8,847	616,663	72,094	697,604
		205,674	50,999,994	3,628,074	54,833,742

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

Table 33(E1): The table below shows the maximum exposure to credit risk for the components of the Balance Sheet. For derivatives, the fair value shown on the Balance Sheet represents the current risk exposure but not the maximum risk exposure that would arise in the future as a result of the change in value. (Cont'd.)

	Note	Shareholder's Fund RM'000	Life Insurance Fund RM'000	Unit-linked RM'000	Total RM'000
2017					
LAR at amortised cost:	6(a)				
Deposits with financial institutions		20,950	1,504,134	672,400	2,197,484
Policy loans		-	4,316,851	-	4,316,851
Mortgage loans		11,640	1,008,849	-	1,020,489
Secured loans		10,007	1,274,007	-	1,284,014
Unsecured loans		14,908	464,849	-	479,757
AFS financial investments:	6(b)				
Debt securities		147,070	-	-	147,070
Financial investments at FVTPL:	6(c)				
Malaysian government securities		-	6,403,918	53,240	6,457,158
Debt securities		35,073	31,796,994	1,562,582	33,394,649
Derivatives	12	-	12,154	909	13,063
Reinsurance assets	7	-	52,892	-	52,892
Insurance receivables	8	-	260,740	-	260,740
Other receivables	9	38,724	815,577	44,992	899,293
		278,372	47,910,965	2,334,123	50,523,460

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

Table 33(E2): The following table sets out information about the credit quality of financial assets measured at amortised cost and debt securities at FVOCI (2017: Available-For-Sale). The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements and the use of credit derivatives.

For explanation of the terms: '12-month ECL', 'lifetime ECL' and 'credit-impaired', refer to Note 2.2 (k).

	2018				2017
	12-month ECL RM'000	Lifetime ECL not credit Impaired RM'000	Lifetime ECL credit Impaired RM'000	Total RM'000	Total RM'000
Loans at amortised cost					
Government guaranteed loan	1,280,424	-	-	1,280,424	1,280,811
Investment Grade* (BBB to AAA)	187,000	-	-	187,000	-
Non Investment Grade* (C to BB)	118,132	886,768	-	1,004,900	-
Not Rated	-	-	-	-	1,497,000
	1,585,556	886,768	-	2,472,324	2,777,811
Loss allowance	(865)	(19,196)	-	(20,061)	-
Carrying amount	1,584,691	867,572	-	2,452,263	2,777,811
Debt securities at FVOCI (2017: AFS)					
Government guaranteed and Low risk bonds	483,960	-	-	483,960	26,551
Investment Grade* (BBB to AAA)	661,335	-	-	661,335	82,023
Non Investment Grade* (C to BB)	175,595	75,489	-	251,084	-
Not Rated	-	-	-	-	38,496
	1,320,890	75,489	-	1,396,379	147,070

* Based on internal ratings grades which are equivalent to grades of external rating agencies (2017: Based on public ratings assigned by external rating agencies including RAM and MARC).

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

Table 33(E2): The following table sets out the credit analysis for financial assets:

	Government guaranteed and low risk bonds RM'000	Investment grade* (BBB to AAA) RM'000	Non-Investment grade* (C to BB) RM'000	Not rated RM'000	Unit-linked RM'000	Not subject to credit risk RM'000	Total RM'000
2018							
Financial investments at AC:							-
Deposits with financial institutions	-	1,633,675	-	220,000	1,313,480	-	3,167,155
Policy loans	-	-	-	4,448,049	-	-	4,448,049
Mortgage loans	-	-	-	798	-	-	798
Secured loans	-	-	-	2,798	-	-	2,798
Unsecured loans	-	-	-	2,647	-	-	2,647
Financial investments at FVTPL:							-
Malaysian government securities	6,976,087	-	-	-	213,644	-	7,189,731
Debt securities	11,203,350	14,035,683	-	7,812,037	2,028,856	-	35,079,926
Equity securities	-	-	-	-	3,871,298	16,809,182	20,680,480
Unit and property trust funds	-	-	-	-	143,544	1,934,070	2,077,614
Collective investment schemes - subsidiary	-	-	-	-	-	425,923	425,923
Derivatives	-	5,354	-	-	-	-	5,354
Reinsurance assets	-	50,672	-	-	-	-	50,672
Insurance receivables	-	-	-	320,304	-	-	320,304
Other receivables	198,926	256,465	-	170,119	72,094	-	697,604
Cash and bank balances	-	798,242	-	-	14,531	-	812,773
Total credit risk exposure	18,378,363	16,780,091	-	12,976,752	7,657,447	19,169,175	74,961,828

* Based on internal ratings grades which are equivalent to grades of external rating agencies (2017: Based on public ratings assigned by external rating agencies including RAM and MARC).

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

Table 33(E2): The following table sets out the credit analysis for financial assets: (Cont'd.)

	Neither past-due nor impaired						
	Government guaranteed and low risk bonds RM'000	Investment grade* (BBB to AAA) RM'000	Non-Investment grade* (C to BB) RM'000	Not rated RM'000	Unit-linked RM'000	Past-due RM'000	Total RM'000
2017							
Financial investments at AC:							
Deposits with financial institutions	-	1,205,084	-	320,000	672,400	-	2,197,484
Policy loans	-	-	-	4,316,851	-	-	4,316,851
Mortgage loans	-	-	-	989	-	-	989
Secured loans	-	-	-	3,203	-	-	3,203
Unsecured loans	-	-	-	2,257	-	-	2,257
Financial investments at FVTPL:							
Malaysian government securities	6,403,918	-	-	-	53,240	-	6,457,158
Debt securities	10,589,506	19,528,102	-	1,714,460	1,562,582	-	33,394,650
Reinsurance assets	-	52,892	-	-	-	-	52,892
Insurance receivables	-	-	-	255,510	-	5,230	260,740
Other receivables	183,352	218,007	-	449,082	44,992	3,860	899,293
Total credit risk exposure	17,176,776	21,004,085	-	7,062,352	2,333,214	9,090	47,585,517

* Based on internal ratings grades which are equivalent to grades of external rating agencies (2017: Based on public ratings assigned by external rating agencies including RAM and MARC).

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

This disclosure below relates to MFRS 9 which came into effect in 2018.

Amounts arising from Expected Credit Loss ("ECL")

Measurement of ECL - Explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

These parameters are derived from the statistical models which are developed by the Company based on the historical data. They are adjusted to reflect forward-looking information.

PD represents the likelihood of a borrower defaulting on its financial obligation at the time of default, either over the next 12 months (12M PD), or over the remaining lifetime ('Lifetime PD') of the obligation. They are estimates at a certain date, which are calculated based on the statistical rating models. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors.

If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. The ECL considers the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. LGD is expressed as a percentage per loss per unit of exposure at the time of default and varies by type and seniority of claims, availability of collateral, geographical location and industry of borrower and existing market conditions. They are estimates at a certain date, which are calculated based on the statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty, including amortisation schedules. The EAD of a financial asset is its gross carrying amount.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

Amounts arising from Expected Credit Loss ("ECL") (Cont'd.)

Measurement of ECL - Explanation of inputs, assumptions and estimation techniques (Cont'd.)

The ECL is determined by projecting PD, LGD and EAD for each individual exposure. These three components are multiplied together and adjusted for forward-looking information. This is then discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The trade and lease receivables are in scope for ECL impairment provisions using the simplified assumption of lifetime ECL.

Significant increase in credit risk

To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The Company considers available reasonable and supportive forward-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations.

A movement of an instrument's credit rating along the rating scale will represent changes in credit risk, measured by the change in PD.

The criteria for assessing whether credit risk has increased significantly will be determined by both quantitative changes in 12M PDs and qualitative factors. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative model, the 12M PD is determined to have increased by more than 100% since origination. The criteria as described above would only apply if the financial instrument does not have an investment grade rating.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(g) Credit risk (Cont'd.)

Significant increase in credit risk (Cont'd.)

Using its experienced credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Company uses the watch-list as an additional trigger for the identification of significant increase in credit risk.

The Company considers “low credit risk” to be an investment grade credit rating using a combination of internal and external credit rating models.

Definition of default

The Company considers a financial asset to be in default by assessing the following criteria:

<u>Quantitative criteria</u>

For insurance receivables, the counterparty fails to make contractual payments within 12 months when they fall due, which are derived based on the Company’s historical information. For bonds and loans, the instrument is in overdue status and there are non-payments on another debt obligation of the same issuer to the Company.

<u>Qualitative criteria</u>

The counterparty is in bankruptcy or has indications of potentially significant financial difficulty such as lawsuits or similar actions that threaten the financial viability of the counterparty; distressed exchange, merger or amalgamation without assumption, restructuring with expected principal haircut or a breach in material loan covenant that is not rectified within a given timeframe.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company's expected loss calculations.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

(g) Credit risk (Cont'd.)

Incorporating of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company has performed historical analysis and identified key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Experienced judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are obtained from publicly available economic databases published on a quarterly basis and provide the best estimate view of the economy over the next four to five years, after which, to project the economic variables for the full remaining lifetime of each instrument, a mean reversion approach is used. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and the components of LGD and EAD.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and the actual outcomes may be significantly different from those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The sensitivity of the ECL to the economic variable assumptions affecting the calculation of ECL was not material to the Company for the year ended 31 December 2018.

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

(g) Credit risk (Cont'd.)

Loss allowance - Provision for ECL

Table 33(E3): The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance amount for credit losses and reflect measurement basis under MFRS 139.

	2018				2017
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000	Total RM'000
Loans at amortised cost					
Opening balance - adoption of MFRS 9	487	26,141	-	26,628	-
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(119)	119	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Additional loss allowance due to transfer	-	347	-	347	-
Net remeasurement of loss allowance	22	922	-	944	-
New financial assets purchased	695	-	-	695	-
Financial assets that have been derecognised	(327)	(8,362)	-	(8,689)	-
Changes in models/risk parameters	108	29	-	137	-
Closing balance	866	19,196	-	20,062	-

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

(g) Credit risk (Cont'd.)

Loss allowance - Provision for ECL

Table 33(E3): The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance amount for credit losses and reflect measurement basis under MFRS 139. (Cont'd.)

	2018				2017
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000	Total RM'000
Debt investment securities at FVOCI (2017: AFS)					
Opening balance	341	5,414	-	5,755	-
Transfer to 12-month ECL	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(37)	37	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Additional loss allowance due to transfer	-	269	-	269	-
Net remeasurement of loss allowance	38	150	-	188	-
New financial assets purchased	2,037	-	-	2,037	-
Financial assets that have been derecognised	(543)	(3,548)	-	(4,091)	-
Changes in models/risk parameters	234	7	-	241	-
Closing balance	2,070	2,329	-	4,399	-

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(h) Concentration risk

An important element of managing both market and credit risk is to actively manage concentration to specific issuers, counterparties, industry sectors, countries and currencies. Both internal and regulatory limits are put in place and monitored to manage this risk. These limits are reviewed on a regular basis by the ALC. The Company's exposures are within the concentration limits set by the regulator. The Company actively manages its asset mix to ensure that there is no significant concentration of credit risk.

(i) Sensitivity analysis on financial risks

The sensitivity analysis below shows the impact on the Company's net profit after taxation by applying possible shocks to each key variable, with all other variables held constant. While the co-movement of key variables can significantly affect the fair values and/or amortised cost of financial assets, to demonstrate the impact due to changes in each key variable, the variables are changed individually.

The impact on net profit after taxation represents the effect caused by changes in fair value of financial assets whose fair values are recorded in the income statement, and changes in valuation of insurance contract liabilities. The impact on equity represents the impact on net profit after taxation and the effect on changes in fair value of financial assets measured at Fair Value through Other Comprehensive Income ("FVOCI").

Table 33(F):

2018 **RM (millions)**		**Impact on Gross Actuarial Liabilities**	**Impact on Net Actuarial Liabilities**	**Impact on Profit After Taxation**	**Impact on Equity***
Change in variables					
a) Equity					
+/-20%	- STI	0.0	0.0	+/-0.7	+/-20.8
	- KLCI	0.0	0.0	+/-74.1	+/-131.6
b) Alternative Investment					
+/-10%		0.0	0.0	+/-2.2	+/-7.2
c) Foreign Currency					
+/-5%		0.0	0.0	+/-1.5	+/-13.3

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33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Market and Credit Risks (Cont'd.)

(i) Sensitivity analysis on financial risks (Cont'd.)

Table 33(F) (Cont'd.):

2018 (Cont'd.) RM (millions)	**Impact on Gross Actuarial Liabilities**	**Impact on Net Actuarial Liabilities**	**Impact on Profit After Taxation**	**Impact on Equity***
Change in variables				
d) Interest Rate	←	**(Decrease)/Increase**		→
MGS Yield curve +100 bps	(769.7)	(768.7)	43.8	(32.1)
MGS Yield curve -100 bps	904.5	903.3	(91.7)	(5.6)
PAR Yield curve +100 bps	(4,421.4)	(4,421.4)	0.0	0.0
PAR Yield curve -100 bps	5,587.5	5,587.5	0.0	0.0
e) Credit Spread				
Spread +100 bps	0.0	0.0	(86.4)	(144.2)
Spread - 100 bps	0.0	0.0	98.1	163.1

2017 RM (millions)	**Impact on Gross Actuarial Liabilities**	**Impact on Net Actuarial Liabilities**	**Impact on Profit After Taxation**	**Impact on Equity***
Change in variables				
a) Equity				
+/-20% - STI	0.0	0.0	0.0	+/-14.1
- KLCI	0.0	0.0	0.0	+/-97.1
b) Alternative Investment				
+/-10%	0.0	0.0	+/-5.6	+/-5.6
c) Foreign Currency				
+/-5%	0.0	0.0	+/-0.2	+/-8.4
d) Interest Rate	←	**(Decrease)/Increase**		→
MGS Yield curve +100 bps	(627.2)	(626.0)	(2.0)	(9.3)
MGS Yield curve -100 bps	746.0	744.7	(21.0)	(13.0)
PAR Yield curve +100 bps	(4,466.4)	(4,466.4)	0.0	0.0
PAR Yield curve -100 bps	5,650.9	5,650.9	0.0	0.0
e) Credit Spread				
Spread +100 bps	0.0	0.0	(124.4)	(131.6)
Spread - 100 bps	0.0	0.0	142.7	150.5

* The impact on equity reflects the after taxation impact, when applicable.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Operational, Market Conduct and Compliance Risk

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

Market conduct risk is an event or action that may potentially impact partly or completely the achievement of the Company’s objectives arising from its personnel and intermediaries not conducting themselves in accordance with the ethical standards and in compliance with the relevant laws and regulations governing insurance and investment product for pre-sales, during sales and after sales process. It is synonymous with professional behaviour and customer's protection. There are four areas in which the Company continuously strengthens:

- Fit and Proper;
- Sales Advisory Process;
- Training and Competency; and
- Business Conduct.

Compliance risk is any event or action that may potentially impact partly or completely the achievement of the Company’s objectives as a result of its failure to comply with the applicable laws, regulations and standards. The applicable key compliance areas include:

- Laws, regulations and rules governing insurance business and regulated financial activities undertaken by the Company;
- Codes of practice promoted by industry associations; and
- Anti-money laundering and counter financing of terrorism.

The day-to-day management of operational, market conduct and compliance risks is effected through the maintenance of comprehensive internal controls, supported by an infrastructure of systems and procedures to monitor processes and transactions. The SMT reviews and monitors these issues at its monthly meetings. The Internal Audit team reviews the systems of internal control to assess their effectiveness and continued relevance, and report at least quarterly to the Board Audit Committee. As an added measure, the risk appetite statement explicitly sets the Company's tolerance level to financial loss arising from operational, market conduct and compliance risks.

33. ENTERPRISE RISK GOVERNANCE AND MANAGEMENT OBJECTIVE AND POLICIES (CONT'D.)

Technology Risk

Technology risk is defined as risk related to any potential adverse outcome, damage, loss, disruption, violation, or failure arising from the use of or reliance on computer hardware, software, electronic devices, and networks.

The Company adopts a risk based approach in managing technology risks relating to data loss/leakage, system security vulnerabilities, inferior system acquisition and development, system breakdown and availability, outsourced vendor service delivery, privileged access misuse and technology obsolescence. Key risk indicators related to technology risks are reported to the Board on a regular basis. Independent assessment is performed by the Internal Audit team on the adequacy and effectiveness of the processes to manage technology risks. The risk appetite statement also explicitly sets the Company's tolerance level to financial loss arising from technology risks.

34. FAIR VALUES OF ASSETS AND LIABILITIES

The management assessed that cash and short-term deposits, insurance and other receivables, insurance and other payables and other liabilities approximate their carrying amounts largely due to the short-term maturities of these assets and liabilities.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The carrying amounts of the Company's assets and liabilies approximate their respective fair values except for mortgage loans (included in investments carried at amortised cost) (Note 6(a)).

34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

The following methods and assumptions were used to estimate the fair values which are carried or disclosed in the financial statements:

- The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices and closing prices as appropriate for assets at the close of business on the reporting date.

- For investments in quoted unit and real estate investment trusts, fair value is determined by reference to published net asset values. Investments in equity that do not have quoted market prices in an active market and whose fair value cannot be reliably measured will be stated at net asset value.

- For financial instruments where there is no active market such as unquoted fixed income securities i.e. unquoted bonds, fair value is obtained from Bond Pricing Agency Malaysia Sdn. Bhd. ("BPAM") while for foreign bonds, fair value is obtained

- For unquoted and unrated bonds, the unrated bonds are first assigned an internal rating using the Internal Credit Rating model and subsequently benchmarked against BPAM's indicative bond yields for a bond with similar rating and tenure.

- For structured deposits and derivatives, the fair value is obtained from the counterparty bank.

- For investment properties, the fair value is obtained from valuations as performed by the external valuers using the income method and comparison method.

- For mortgage loans, the fair value is derived by using the AA2 yield by tenures as an approximate proxy for fair value valuation. The AA2 yields are sourced from BPAM.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

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34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities.

	Date of valuation	Level 1 Quoted Market Price RM'000	Level 2 Valuation Techniques - Market Observable Inputs RM'000	Level 3 Valuation Techniques - Unobservable Inputs RM'000	Total Fair Value RM'000
2018					
(a) Assets measured at fair value:					
Financial assets:					
FVOCI financial assets (Note 6(b)):					
Equity securities:					
Quoted in Malaysia					
- Kuala Lumpur Stock Exchange	31 December 2018	378,190	-	-	378,190
Quoted outside Malaysia					
- Singapore Exchange	31 December 2018	132,123	-	-	132,123
- Hong Kong Exchange	31 December 2018	178,773	-	-	178,773
Unquoted in Malaysia	31 December 2018	-	-	80,850	80,850
Malaysian government securities	31 December 2018	-	150,184	-	150,184
Debt securities:					
Unquoted in Malaysia	31 December 2018	-	1,246,195	-	1,246,195
FVTPL financial assets (Note 6(c)):					
Mandatorily measured					
Equity securities:					
Quoted in Malaysia	31 December 2018	17,823,088	-	-	17,823,088
Quoted outside Malaysia	31 December 2018	2,780,027	-	-	2,780,027
Unquoted in Malaysia	31 December 2018	-	-	77,365	77,365
Debt securities:					
Quoted outside Malaysia	31 December 2018	223,670	-	-	223,670
Unquoted in Malaysia	31 December 2018	-	4,848,897	-	4,848,897
Unit and property trust funds:					
Quoted in Malaysia	31 December 2018	599,426	-	-	599,426
Quoted outside Malaysia	31 December 2018	1,478,188	-	-	1,478,188

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34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities (cont'd.).

	Date of valuation	Level 1 Quoted Market Price RM'000	Level 2 Valuation Techniques - Market Observable Inputs RM'000	Level 3 Valuation Techniques - Unobservable Inputs RM'000	Total Fair Value RM'000
2018 (cont'd.)					
(a) Assets measured at fair value: (cont'd.)					
Financial assets: (cont'd.)					
FVTPL financial assets (Note 6(c)): (cont'd):					
Mandatorily measured (cont'd)					
Investment in subsidiary:					
Collective investment schemes					
Quoted in Malaysia	31 December 2018	425,923	-	-	425,923
Designated upon initial recognition:					
Malaysian government securities	31 December 2018	-	7,189,731	-	7,189,731
Debt securities:					
Unquoted in Malaysia	31 December 2018	-	29,921,690	-	29,921,690
Unquoted outside Malaysia	31 December 2018	-	85,669	-	85,669
Financial assets		24,019,408	43,442,366	158,215	67,619,989
Non financial assets:					
Investment Properties (Note 4):					
Commercial	16 October 2018	-	-	540,000	540,000
Commercial	1 November 2018	-	-	362,700	362,700
Residential	1 November 2018	-	-	234,900	234,900
Non financial assets		-	-	1,137,600	1,137,600
(b) Assets for which fair values are disclosed:					
AC (Note 6(a)):					
Mortgage loans	31 December 2018	-	513,809	-	513,809
Derivatives (Note 12):					
Currency swaps	31 December 2018	-	5,353	-	5,353
Interest rate swaps	31 December 2018	-	1	-	1
		-	5,354	-	5,354

34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities (cont'd.).

	Date of valuation	Level 1 Quoted Market Price RM'000	Level 2 Valuation Techniques - Market Observable Inputs RM'000	Level 3 Valuation Techniques - Unobservable Inputs RM'000	Total Fair Value RM'000
2018 (cont'd.)					
(c) Liabilities measured at fair value:					
Financial liabilities					
Derivatives (Note 12):					
Currency swaps	31 December 2018	-	24,849	-	24,849
2017					
(a) Assets measured at fair value:					
Financial assets:					
AFS financial assets (Note 6(b)):					
Equity securities:					
Quoted in Malaysia					
- Kuala Lumpur Stock Exchange	31 December 2017	16,585,343	-	-	16,585,343
Quoted outside Malaysia					
- Singapore Exchange	31 December 2017	1,469,240	-	-	1,469,240
- Hong Kong Exchange	31 December 2017	1,614,367	-	-	1,614,367
- New York Stock Exchange	31 December 2017	134,158	-	-	134,158
- Nasdaq Stock Market	31 December 2017	32,115	-	-	32,115
Debt securities:					
Unquoted in Malaysia	31 December 2017	-	147,070	-	147,070
Quoted outside Malaysia	31 December 2017	-	-	-	-
Unit and property trust funds:					
Quoted in Malaysia	31 December 2017	602,606	-	-	602,606
Quoted outside Malaysia	31 December 2017	1,800,140	-	-	1,800,140
Investment in subsidiary:					
Collective investment schemes					
Quoted in Malaysia	31 December 2017	407,790	-	-	407,790
FVTPL financial assets (Note 6(c)):					
Mandatorily measured					
Equity securities:					
Quoted in Malaysia	31 December 2017	35,974	-	-	35,974
Quoted outside Malaysia	31 December 2017	648	-	-	648
Debt securities:					
Unquoted in Malaysia	31 December 2017	-	3,304,091	-	3,304,091

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34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities (cont'd.).

	Date of valuation	Level 1 Quoted Market Price RM'000	Level 2 Valuation Techniques - Market Observable Inputs RM'000	Level 3 Valuation Techniques - Unobservable Inputs RM'000	Total Fair Value RM'000
2017 (cont'd.)					
(a) Assets measured at fair value: (cont'd.)					
Financial assets: (cont'd.)					
FVTPL financial assets (Note 6(c)): (cont'd):					
Designated upon initial recognition:					
Malaysian government securities	31 December 2017	-	6,403,918	-	6,403,918
Debt securities:					
Quoted outside Malaysia	31 December 2017	185,608	-	-	185,608
Unquoted in Malaysia	31 December 2017	-	28,255,673	-	28,255,673
Unquoted outside Malaysia	31 December 2017	-	86,695	-	86,695
Held-for-Trading:					
Equity securities:					
Quoted in Malaysia	31 December 2017	4,833,277	-	-	4,833,277
Quoted outside Malaysia	31 December 2017	87,864	-	-	87,864
Malaysian government securities	31 December 2017	-	53,240	-	53,240
Debt securities:					
Quoted outside Malaysia	31 December 2017	20,623	-	-	20,623
Unquoted in Malaysia	31 December 2017	-	1,541,959	-	1,541,959
Unit and property trust funds:					
Quoted in Malaysia	31 December 2017	117,418	-	-	117,418
Quoted outside Malaysia	31 December 2017	33,463	-	-	33,463
Financial assets		27,960,634	39,792,646	-	67,753,280

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34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities (cont'd.).

	Date of valuation	Level 1 Quoted Market Price RM'000	Level 2 Valuation Techniques - Market Observable Inputs RM'000	Level 3 Valuation Techniques - Unobservable Inputs RM'000	Total Fair Value RM'000
2017 (cont'd.)					
<u>Non financial assets:</u>					
Investment Properties (Note 4):					
Commercial	1 November 2017	-	-	366,521	366,521
Residential	1 November 2017	-	-	234,900	234,900
Non financial assets		-	-	601,421	601,421
<u>(b) Assets for which fair values are disclosed:</u>					
AC (Note 6(a)):					
Mortgage loans	31 December 2017	-	1,039,816	-	1,039,816
Derivatives (Note 12):					
Currency swaps	31 December 2017	-	8,520	-	8,520
Forward	31 December 2017	-	4,543	-	4,543
		-	13,063	-	13,063
<u>(c) Liabilities measured at fair value:</u>					
Financial liabilities					
Derivatives (Note 12):					
Currency swaps	31 December 2017	-	47,131	-	47,131

34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

(i) Information about significant unobservable inputs used in Level 3 fair value measurements:

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3):

Description	Fair value as at 31 December 2018 RM'000	Valuation techniques	Unobservable inputs	Range (weighted average)
Investment properties				
Commercial properties	270,000	Income approach	Rental per square foot ("p.s.f.") per month	RM3.15 - RM5.50
			Rental growth rate (upon Revisionary)	12.50%
			Long-term vacancy rate	7.50%
			Discount rate	6.0% - 6.5%
Commercial properties	632,700	Comparison approach	Estimated Value p.s.f	RM100 - RM1,150
Residential properties	234,900	Comparison approach	Estimated Value p.s.f	RM45 - RM725
FVOCI financial assets				
Unquoted equities	80,850	Adjusted net asset value[1]	not applicable	not applicable
FVTPL financial assets				
Unquoted equities	77,365	Adjusted net asset value[1]	not applicable	not applicable

Description	Fair value as at 31 December 2017 RM'000	Valuation techniques	Unobservable inputs	Range (weighted average)
Investment properties				
Commercial properties	278,000	Income approach	Rental per square foot ("p.s.f.") per month	RM3.15 - RM5.50
			Rental growth rate (upon Revisionary)	12.50%
			Long-term vacancy rate	7.50%
			Discount rate	6.0% - 6.5%
Commercial properties	88,521	Comparison approach	Estimated Value p.s.f	RM100 - RM1,130
Residential properties	234,900	Comparison approach	Estimated Value p.s.f	RM45 - RM885

(1) These investments are valued using net asset value. The net asset value of these investments as at the reporting period is an unobservable input as it is not published. Accordingly, these investments are classified as Level 3 investments within the fair value hierarchy. Changing unobservable inputs to reasonably possible alternative assumptions would not have a significant impact on profit for the year or total equity.

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34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

(ii) Movements in level 3 assets and liabilities measured at fair value:

The following tables present the reconciliation for all assets measured at fair value based on significant unobservable inputs (Level 3):

	Fair value measurements using significant			
	FVOCI Financial assets	FVTPL Financial assets		
	Unquoted equities		Investment properties	Total
31 December 2018	RM'000	RM'000	RM'000	RM'000
Opening balance	-	-	601,421	601,421
Effects of adoption of MFRS 9	80,850	77,363	-	158,213
Opening balance (Restated)	80,850	77,363	601,421	759,634
Total gain for the year:				
Included in income statement				
- Changes in fair value	-	2	(7,553)	(7,551)
Addition for the year:				
Additions	-	-	434,348	434,348
Transfer from deposits	-	-	108,815	108,815
Transfer from property and equipment	-	-	1,954	1,954
Write-off	-	-	(1,385)	(1,385)
Closing balance	80,850	77,365	1,137,600	1,295,815

31 December 2017	**Fair value measurements using significant unobservable inputs (Level 3) investment properties RM'000**
Opening balance	603,810
Total loss for the year:	
Included in income statement	
- Changes in fair value	(2,416)
Addition for the year:	
Purchases	27
Closing balance	601,421

34. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D.)

Fair value Hierarchy

The Company classifies fair value measurement using a fair value hierarchy that reflects the significant of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 Assets/liabilities are those of which market values are determined in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those process represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Assets/liabilities are those of which market values are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These type of assets/liabilities includes assets/liabilities of which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets/financial liabilities with fair values based on broker quotes, investments in private equity funds with fair values obtained from counterparties and assets/liabilities that are valued using the Company's own model whereby the majority of assumptions are market observable.

Level 3 Assets/liabilities are those of which market values are measured using a valuation technique based on assumptions formed from unobservable inputs. Unobservable inputs are inputs not supported by market data, but which are set on the basis that they represent what is reasonable given the prevailing market conditions.

There have been no transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the financial years ended 31 December 2018 and 31 December 2017.

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35. REGULATORY CAPITAL REQUIREMENT

The capital structure of the Company as at 31 December 2018, as prescribed under the RBC Framework is provided below:

	2018 RM'000	2017 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000	100,000
Reserves, including retained earnings	23,887,354	19,031,895
	23,987,354	19,131,895
Tier 2 Capital		
Eligible reserves	23,634	5,376,415
Deductions: Deferred Tax Asset	3,469	44,119
Total Capital Available	24,007,519	24,464,191

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36. INSURANCE FUNDS

The Company's activities are organised by funds and segregated into Life Insurance (including Unit-Linked business) and Shareholder's Funds in accordance with the Financial Services Act, 2013. The Income Statement and Balance Sheet by funds are presented as follow:

Balance Sheet by Funds
As at 31 December 2018

	Shareholder's Fund		Life Insurance Fund		Elimination*		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Financial investments	844,201	839,683	76,849,498	76,220,658	-	-	77,693,699	77,060,341
Reinsurance assets	-	-	50,672	52,892	-	-	50,672	52,892
Insurance receivables	-	-	320,304	260,740	-	-	320,304	260,740
Other assets	1,830,284	1,525,918	3,145,885	2,175,516	(1,834,478)	(1,498,078)	3,141,691	2,203,356
	2,674,485	2,365,601	80,366,359	78,709,806	(1,834,478)	(1,498,078)	81,206,366	79,577,329
Equity, Policyholders' Fund and Liabilities								
Total Equity	2,495,626	2,129,215	-	-	-	-	2,495,626	2,129,215
Insurance contract liabilities	-	-	76,073,013	74,723,658	-	-	76,073,013	74,723,658
Other liabilities	178,859	236,386	4,293,346	3,986,148	(1,834,478)	(1,498,078)	2,637,727	2,724,456
Total Policyholders' Fund and Liabilities	178,859	236,386	80,366,359	78,709,806	(1,834,478)	(1,498,078)	78,710,740	77,448,114
	2,674,485	2,365,601	80,366,359	78,709,806	(1,834,478)	(1,498,078)	81,206,366	79,577,329

* Refers to elimination of Interfund balances.

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36. INSURANCE FUNDS (CONT'D.)

Income Statement by Funds
For the year ended 31 December 2018

	Shareholder's Fund		Life Insurance Fund		Elimination**		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	-	-	8,079,533	7,617,743	(3,361)	(2,359)	8,076,172	7,615,384
Premiums ceded to reinsurers	-	-	(207,560)	(185,106)	-	-	(207,560)	(185,106)
Net earned premiums	-	-	7,871,973	7,432,637	(3,361)	(2,359)	7,868,612	7,430,278
Investment income	41,062	35,648	3,322,505	3,101,064	-	-	3,363,567	3,136,712
Fee and commission income	-	-	16,631	17,363	-	-	16,631	17,363
Gains and losses and other operating revenue	2,585	11,226	(2,025,749)	1,565,840	-	-	(2,023,164)	1,577,066
Other revenue	43,647	46,874	1,313,387	4,684,267	-	-	1,357,034	4,731,141
Gross benefits and claims paid	-	-	(5,932,482)	(5,568,027)	-	23,738	(5,932,482)	(5,544,289)
Claims ceded to reinsurers	-	-	94,623	87,527	-	-	94,623	87,527
Gross change in contract liabilities	-	-	(577,182)	(3,641,399)	-	(23,738)	(577,182)	(3,665,137)
Change in contract liabilities ceded to reinsurers	-	-	3,903	(24,906)	-	-	3,903	(24,906)
Net benefits and claims	-	-	(6,411,138)	(9,146,805)	-	-	(6,411,138)	(9,146,805)
Depreciation and amortisation	-	-	(50,413)	(64,504)	-	-	(50,413)	(64,504)
Other operating and management expenses	(35,779)	(13,185)	(1,570,542)	(1,625,360)	3,361	2,359	(1,602,960)	(1,636,186)
Taxation of life insurance business	-	-	(48,920)	(320,070)	-	-	(48,920)	(320,070)
Other expenses	(35,779)	(13,185)	(1,669,875)	(2,009,934)	3,361	2,359	(1,702,293)	(2,020,760)
Profit from operations	7,868	33,689	1,104,347	960,165	-	-	1,112,215	993,854
Transfer from Life Insurance Fund*	1,104,347	960,165	(1,104,347)	(960,165)	-	-	-	-
Profit before taxation	1,112,215	993,854	-	-	-	-	1,112,215	993,854
Taxation (Note 25(b))	(226,471)	(201,290)	-	-	-	-	(226,471)	(201,290)
Net profit for the year	885,744	792,564	-	-	-	-	885,744	792,564

* The amount transferred from the Life Insurance Fund to the Shareholder's Fund is net of tax.
** Refers to elimination of interfund transactions.

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36. INSURANCE FUNDS (CONT'D.)

Information on Cash Flows by Funds
for the year ended 31 December 2018

	Shareholder's Fund		Life Insurance Fund		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash flow from:						
Operating activities	501,852	443,054	2,012,032	146,331	2,513,884	589,385
Investing activities	-	-	(480,928)	(83,045)	(480,928)	(83,045)
Financing activities	(525,000)	(465,000)	-	-	(525,000)	(465,000)
Increase/(Decrease) in cash and cash equivalents	(23,148)	(21,946)	1,531,104	63,286	1,507,956	41,340
Cash and cash equivalents:						
At beginning of year	25,852	47,798	2,279,520	2,216,234	2,305,372	2,264,032
At end of year	2,704	25,852	3,810,624	2,279,520	3,813,328	2,305,372