

# Reports And Statutory Financial Statements

31 DECEMBER 2016



**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

<b>CONTENTS</b>	<b>PAGES</b>
DIRECTORS' REPORT	1 - 15
STATEMENT BY DIRECTORS	16
STATUTORY DECLARATION	16
INDEPENDENT AUDITORS' REPORT	17 - 20
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	21
STATEMENT OF PROFIT OR LOSS	22
STATEMENT OF COMPREHENSIVE INCOME	23
STATEMENT OF CHANGES IN EQUITY	24
STATEMENT OF CASH FLOWS	25
NOTES TO THE FINANCIAL STATEMENTS	26 - 163

**ZURICH INSURANCE MALAYSIA BERHAD (8029-A)**  
(Incorporated in Malaysia)

## **DIRECTORS' REPORT**

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2016.

## **PRINCIPAL ACTIVITIES**

The Company is engaged principally in the underwriting of life insurance business, including investment-linked and annuity business, and all classes of general insurance business.

There have been no significant changes in the nature of the principal activities during the financial year other than as disclosed in Note 12(b) to the financial statements.

## **FINANCIAL RESULTS**

	RM'000
Net profit for the financial year	
- Continuing operations	87,403
- Discontinued operations	<u>65,600</u>
	<u>153,003</u>

## **RESERVES AND PROVISIONS**

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.

## **DIVIDENDS**

No dividend was declared or paid since the end of the previous financial year. The Directors do not recommend the payment of any dividend for the current financial year.

## **SHARE CAPITAL**

There was no issuance of new ordinary shares during the financial year.

## **CORPORATE GOVERNANCE**

The Board of Directors ("the Board") is satisfied that the Company has complied with all prescriptive requirements of, and adopts the Corporate Governance policy document (BNM/RH/PD 029-9) issued by Bank Negara Malaysia ("BNM"). The Board has continued its commitment in ensuring that the highest principles and best practices in corporate governance are practised as a fundamental part of discharging its responsibilities to protect and enhance shareholders value and the financial performance of the Company.

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight**

The Board has an overall responsibility to lead the Company, including providing directions in terms of the Company's corporate objectives and business strategies, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control and reporting procedures.

The Board currently comprises five (5) Directors with skills and experience in a diverse range of business, financial, technical and public service background. The Board is represented by four (4) Non-Executive Directors and one (1) Executive Director. All of the four (4) Non-Executive Directors are Independent Non-Executive Directors who participate fully in decision making of key issues regarding the Company. The roles and activities of the Chairman and the Chief Executive Officer are distinct and separate.

The Board meets at least six (6) times a year with additional meetings being convened as necessary. For the financial year ended 31 December 2016, the Board met ten (10) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings held during the financial year ended 31 December 2016.

The appointments to the Board were approved by BNM. All appointments and reappointments of Board members are subject to evaluation and review by the Nomination Committee, and approved by the Board before the applications are submitted to BNM for approval.

The principal responsibilities of the Board include reviewing and approving a strategic plan, overseeing the Company's business, formalising documentation on matters specifically reserved for its decision and ensuring that the Company's internal controls and reporting procedures are adequate.

The composition of the Board during the period since the date of the last report is as follows:

Tan Sri Ahmad bin Mohd Don	Chairman (Independent Non-Executive Director)
Philip Wallace Smith	Member (Chief Executive Officer/Executive Director)
Steven Choy Khai Choon	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Geoffrey Martin Riddell	Member (Non-Independent Non-Executive Director)
(Resigned on 18 April 2016)	

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

The number of meetings attended by each member of the Board during the financial year ended 31 December 2016 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Tan Sri Ahmad bin Mohd Don	10/10
Philip Wallace Smith	10/10
Steven Choy Khai Choon	10/10
Datin Joan Hoi Lai Ping	9/10
Hasnah binti Omar	10/10
Geoffrey Martin Riddell (Resigned on 18 April 2016)	3/3

The Board has established a number of Board Committees and Senior Management Committees.

Each Committee operates within defined terms of reference. Board Committees are the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the Board Investment Committee. Senior Management Committees include the Asset Liability Management and Investment Committee ("ALMIC"), the Human Resource Committee ("HRC"), the Information Technology Steering Committee ("ITSC"), Business Continuity Management ("BCM"), the Risk and Control Committee ("RCC"), the Occupational Safety and Health Committee ("OSHC") and various Senior Management Committees for Life and General businesses. The Board Committees are chaired by an Independent Non-Executive Director, while the Senior Management Committees are chaired by the Chief Executive Officer or a member of senior management team.

#### **Audit Committee**

The members of the Audit Committee are as follows:

Steven Choy Khai Choon	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Geoffrey Martin Riddell (Resigned on 18 April 2016)	Member (Non-Independent Non-Executive Director)

The Audit Committee was established as a sub-committee of the Board of Directors with specific terms of reference that have been approved by the Board. The principal objectives are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company. The Audit Committee meets regularly with senior management, the internal auditors and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

The Audit Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Audit Committee are:

- (i) To approve internal auditors' audit plan, review the adequacy of the scope, functions, resources and competency and that it has the necessary authority to carry out its work;
- (ii) To review the results of internal audit process and ensure that appropriate actions are taken on the recommendations given by the internal auditors;
- (iii) To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;
- (iv) To discuss with the external auditors before the audit commences, the nature and scope of audit;
- (v) To provide assurance that the financial information presented by management is relevant, reliable and timely;
- (vi) To oversee compliance with relevant laws and regulations and observance of a proper code of conduct; and
- (vii) To determine the quality, adequacy and effectiveness of the Company's internal control environment.

The Company has also instituted a reporting concern procedure whereby staff, agents, suppliers, consultants, vendors or the Directors of the Company and/or the member of related companies may raise concerns about possible improprieties which may lead to incorrect or distorted financial reporting or other matter of confidence. The Audit Committee ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

The Audit Committee meets at least once every quarter, or more frequently as circumstances dictate. During the financial year ended 31 December 2016, the Audit Committee held nine (9) meetings with senior management, internal auditors, and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

The number of meetings attended by each member of the Audit Committee during the financial year ended 31 December 2016 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Steven Choy Khai Choon	9/9
Tan Sri Ahmad bin Mohd Don	9/9
Datin Joan Hoi Lai Ping	8/9
Hasnah binti Omar	9/9
Geoffrey Martin Riddell (Resigned on 18 April 2016)	3/3

During the financial year ended 31 December 2016, apart from reviewing the quarterly results and annual financial statements, the Audit Committee also approved the annual internal audit plan. The plan is developed to cover key operational areas, financial activities and information systems and regulatory compliance audit that are significant to the overall performance of the Company on a cyclical basis.

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

The Internal Audit Department also conducts audits on an ad-hoc basis based on special requests either by the Board of Directors or the senior management. It also works closely with the external auditors to resolve any internal control issues raised by them, and assists in ensuring appropriate management-based actions are taken. The Audit Committee receives regular reports from the Head of the Internal Audit Department on the audit results.

#### **Nomination Committee**

The members of the Nomination Committee are as follows:

Datin Joan Hoi Lai Ping	Chairperson (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Steven Choy Khai Choon	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Philip Wallace Smith (Appointed on 22 April 2016)	Chief Executive Officer/Executive Director
Geoffrey Martin Riddell (Resigned on 18 April 2016)	Member (Non-Independent Non-Executive Director)

The Nomination Committee is made up of a majority of whom are Non-Executive Directors. In considering the right candidate for appointment to the Board, the Nomination Committee takes into account the required mix of skills, experience and other core competencies that are necessary to enable the Company to achieve its corporate objectives and fulfil its fiduciary responsibilities. The Nomination Committee is also responsible for the annual review of the effectiveness of the Board and individual Directors.

The Nomination Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Nomination Committee are:

- (i) To establish minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively;
- (ii) To recommend and assess the nominees for directorship, the Directors to fill Board committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for appointment, before an application for approval is submitted to BNM;
- (iii) To oversee the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors, and mix of skills and other core competencies required, through annual reviews;
- (iv) To establish the mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer;
- (v) To recommend to the Board on the removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities;
- (vi) To ensure all Directors undergo appropriate induction programmes and receive continuous training; and
- (vii) To oversee the appointment, management succession planning and performance evaluation of key senior officers and recommending to the Board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

#### **Nomination Committee (continued)**

The number of meetings attended by each member of the Nomination Committee during the financial year ended 31 December 2016 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Datin Joan Hoi Lai Ping	3/3
Tan Sri Ahmad bin Mohd Don	3/3
Steven Choy Khai Choon	3/3
Hasnah binti Omar	3/3
Philip Wallace Smith (Appointed on 22 April 2016)	2/2
Geoffrey Martin Riddell (Resigned on 18 April 2016)	1/1

In the opinion of the Nomination Committee, the Board has a balanced mix of skills and experience required for the businesses of the Company.

#### **Remuneration Committee**

The members of the Remuneration Committee are as follows:

Datin Joan Hoi Lai Ping	Chairperson (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Steven Choy Khai Choon	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Geoffrey Martin Riddell (Resigned on 18 April 2016)	Member (Non-Independent Non-Executive Director)

The Remuneration Committee consists of Non-Executive Directors.

It is responsible for developing a remuneration policy that is sufficient to attract and retain Directors and key senior officers of calibre needed to manage the Company successfully.

The Remuneration Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Remuneration Committee are as follows:

- (i) To recommend a framework of remuneration for Directors, Chief Executive Officer and key senior officers. The remuneration policy shall:
  - (a) be documented and approved by the full Board, and any changes thereto should be subject to the endorsement of the full Board;
  - (b) reflect the experience and level of responsibility borne by individual Directors, Chief Executive Officer and key senior officers;
  - (c) be sufficient to attract and retain Directors, Chief Executive Officer and key senior officers of calibre needed to manage the Company successfully; and
  - (d) be balanced against the need to ensure that the funds of the Company are not used to subsidise excessive remuneration packages.



## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

#### **Remuneration Committee (continued)**

- (ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers. The remuneration packages shall:
- (a) be based on an objective consideration and approved by the full Board;
  - (b) take due consideration of the assessments of the Nomination Committee of the effectiveness and contribution of the Director, Chief Executive Officer or key senior officers concerned;
  - (c) not be decided by the exercise of sole discretion of any one individual or restricted individuals; and
  - (d) be competitive and is consistent with the Company's culture, objective and strategy.

The number of meetings attended by each member of the Remuneration Committee during the financial year ended 31 December 2016 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Datin Joan Hoi Lai Ping	4/4
Tan Sri Ahmad bin Mohd Don	4/4
Steven Choy Khai Choon	4/4
Hasnah binti Omar	4/4
Geoffrey Martin Riddell (Resigned on 18 April 2016)	2/2

Nomination Committee and Remuneration Committee were combined with effect from 28 September 2016 and named as Nomination and Remuneration Committee.

The number of meetings attended by each member of the Nomination and Remuneration Committee during the financial year ended 31 December 2016 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Datin Joan Hoi Lai Ping	1/1
Tan Sri Ahmad bin Mohd Don	1/1
Steven Choy Khai Choon	1/1
Hasnah binti Omar	1/1

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

##### **Risk Management Committee**

The members of the Risk Management Committee are as follows:

Hasnah binti Omar	Chairperson (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Steven Choy Khai Choon	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Geoffrey Martin Riddell (Resigned on 18 April 2016)	Member (Non-Independent Non-Executive Director)

The Risk Management Committee is made up of Non-Executive Directors. It reviews the risk factors of the Company to ensure risks at all levels are managed effectively. It also formulates risk management policies, action plans and evaluates the adequacy of overall risk management policies and procedures.

The Risk Management Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Risk Management Committee are as follows:

- (i) To review and recommend risk management strategies, policies and risk tolerance to the Board for approval;
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks;
- (iii) To ensure that there are adequate infrastructure, resources and systems in place for an effective risk management; and
- (iv) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The number of meetings attended by each member of the Risk Management Committee during the financial year ended 31 December 2016 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Hasnah binti Omar	7/7
Tan Sri Ahmad bin Mohd Don	7/7
Steven Choy Khai Choon	7/7
Datin Joan Hoi Lai Ping	6/7
Geoffrey Martin Riddell (Resigned on 18 April 2016)	1/1

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

##### **Board Investment Committee**

The members of the Board Investment Committee are as follows:

Steven Choy Khai Choon	Chairperson (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)

The Board Investment Committee consists of at least three (3) members, the majority of whom shall be Independent Non-Executive Directors.

The Board Investment Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Board Investment Committee are as follows:

- (i) To ensure proper investment of insurance funds, the Company must put in place an investment and risk management policy that is in line with the risk appetite set by the Board of Directors of the Company. The investment and risk management policy should be approved and reviewed regularly by the Board of Directors, and cover overall investment strategy and proper risk management systems, including monitoring and control mechanisms. In this respect, the Committee is required to review:
  - (a) The Company's ALMIC recommendations for the following:
    - changes to Investment Strategy Policy Statement (includes Strategic Asset Allocation);
    - changes to ALMIC Charter; and
    - changes to Delegated Authority for Investments.
  - (b) The ALMIC meeting approvals and main discussion topics; and
  - (c) Compliance to Risk Appetite Statement and relevant investment guidelines based on the economic performance.

The number of meetings attended by each member of the Board Investment Committee during the financial year ended 31 December 2016 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Steven Choy Khai Choon	1/1
Tan Sri Ahmad bin Mohd Don	1/1
Hasnah binti Omar	1/1
Datin Joan Hoi Lai Ping	1/1

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

##### **Management accountability**

The Company has an organisation structure showing all reporting lines as well as clearly documented job description for all management and executive employees. The officers of the Company have knowledge of their respective authority and operating limits, which are documented in the Company's Internal Control Procedures.

The human resource procedures of the Company provide for the setting of goals and training of each staff. The Company conducts formal appraisals for each staff on an annual basis.

The Company has established procedures to avoid and to deal with any conflict of interest situation. None of the Directors and senior management of the Company have, in any circumstances, conflict of interest referred to in Part B, paragraph 14 of BNM Guidelines on Corporate Governance, and paragraph 58 of the Financial Services Act, 2013 ("FSA").

The Board has approved a communication policy that is applicable to all levels of staff of the Company.

##### **Corporate independence**

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL018-6) in respect of all its related party undertakings. Necessary disclosures were made to the Board and where required, the Board's prior approval for the transaction has also been obtained. All material related party transactions have been disclosed in the financial statements.

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

##### **Internal controls**

The responsibility of maintaining a system of internal controls rests with the Board. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as safeguarding the assets of the Company and stakeholders' interest.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner. The internal audit function reports directly to the Board through the Audit Committee, and its findings and recommendations are communicated to the senior management and all levels of staff concerned. The Chief Internal Auditor has unrestricted access to the Chairman and members of the Audit Committee, and the internal audit function performs their duties within the ambit of the Audit Charter approved by the Audit Committee and the Board.

The ITSC is responsible for establishing effective information technology and information systems plans, authorising information technology ("IT") related expenditure based on authority limits, and monitoring the progress of approved projects. The Company has increased the security controls for the IT systems, and has put in place business resumption and contingency plans to ensure continued operations of mission critical functions. The requirements of BNM's Guidelines on Management of IT Environment (GPIS-1) and Guidelines on Business Continuity Management (BNM/RH/GL/013-3) have been complied.

##### **Risk management**

The Risk Management Committee ("RMC") meets regularly, at least every quarter in a financial year, to review risk management reports of the Company. The RMC has categorised risks into nine (9) key risk factors affecting the Company namely product risk, human risk, regulatory risk, operational risk, financial risk, external risk, customer risk, integrity risk and supplier risk ("key risk factors").

The Company has established, within its risk management framework, a structural approach to enterprise-wide risk management. The process involves risk identification and assessment process whereby all department heads of the Company are required to assess their operations and identify risks affecting their operations, identify existing controls in place to mitigate those risks and the probability of the risks occurring and its impact severity.

## **DIRECTORS' REPORT (CONTINUED)**

### **CORPORATE GOVERNANCE (CONTINUED)**

#### **Board responsibilities and oversight (continued)**

##### **Public accountability**

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff and agents of the Company are required to comply with the Code of Ethics and Conduct.

##### **Financial reporting**

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at the Board, Executive Committee and Management Committee meetings. Financial statements and reports are lodged with the regulatory and supervisory authorities, and annual financial statements prepared in accordance with applicable regulations and approved accounting standards are audited.

## **DIRECTORS**

The Directors of the Company in office during the financial year and during the period from the end of the financial year to since the date of the report are as follows:

Tan Sri Ahmad bin Mohd Don  
Philip Wallace Smith  
Datin Joan Hoi Lai Ping  
Steven Choy Khai Choon  
Hasnah binti Omar  
Geoffrey Martin Riddell (Resigned on 18 April 2016)

Steven Choy Khai Choon and Datin Joan Hoi Lai Ping retire at the forthcoming Annual General Meeting pursuant to Article 103 of the Company's Articles of Association and being eligible, offer themselves for re-election.

## **DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company 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 disclosed in Note 26 to the financial statements) by reason of a contract made by the Company or a related corporation with a 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. The total amount paid for indemnity insurance effected for the Directors of the Company for the financial year amounting to RM 22,000.

During and at the end of the financial year, no arrangement subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**ZURICH INSURANCE MALAYSIA BERHAD (8029-A)**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' INTERESTS**

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, particulars of interests of a Director who held office at the end of the financial year in shares of a related corporation are as follows:

	<u>Number of ordinary shares of CHF0.10 each</u>			
	<u>At</u>			<u>At</u>
	<u>1.1.2016</u>	<u>Acquired</u>	<u>Disposed</u>	<u>31.12.2016</u>
<u>Shares in Zurich Insurance Group Ltd.</u>				
Direct interest:				
Philip Wallace Smith	4,997	-	-	4,997

Zurich Insurance Group Ltd. ("ZIG"), the immediate holding company of Zurich Insurance Company Ltd. ("ZIC") which in turn is the holding company of Zurich Insurance Malaysia Berhad ("the Company"), has designed a Group Long Term Incentive Plan ("the Plan") for the Group's most senior executives for the accomplishment of key Group performance measures. Participants are granted performance-based target shares under the Plan with the vesting of these target grants subject to specific performance achievements over a three-year period.

These performance-based target shares provide the holders with the right to purchase common stock of ZIG at an exercise price set at the market price of common shares on the Swiss Stock Exchange on the day prior to the date of grant.

Other than the above, none of the other Directors in office at the end of the financial year held any interests in shares in, or debentures of, the Company or its related corporations during the financial year.

By virtue of the above Directors' interests in the shares of the immediate holding company and ultimate holding company, they are deemed to have an interest in the shares of the Company to the extent that the immediate holding company and the ultimate holding company have interest.

**AUDITORS' REMUNERATION**

Details of auditors' remuneration are set out in Note 26 to the financial statements. There is no indemnity given to or insurance affected for any auditor of the Company.

## **DIRECTORS' REPORT (CONTINUED)**

### **OTHER STATUTORY INFORMATION**

- (a) Before the financial statements of the Company were prepared, 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 allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had 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) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the 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 of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent 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 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.

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

- (g) Before the financial statements 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 methods specified in the Risk-Based Capital ("RBC") Framework for insurers issued by BNM.



**ZURICH INSURANCE MALAYSIA BERHAD (8029-A)**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**SIGNIFICANT AND SUBSEQUENT EVENTS**

Details of significant and subsequent events are disclosed in Note 12(b) to the financial statements.

**IMMEDIATE AND ULTIMATE HOLDING CORPORATIONS**

The Directors regard Zurich Insurance Company Ltd. as the immediate holding corporation and Zurich Insurance Group Ltd. as the ultimate holding corporation. Both corporations are incorporated in Switzerland.

**AUDITORS**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 29 March 2017. Signed on behalf of the Board of the Directors:



PHILIP WALLACE SMITH  
DIRECTOR



TAN SRI AHMAD BIN MOHD DON  
DIRECTOR

Kuala Lumpur  
29 March 2017

**ZURICH INSURANCE MALAYSIA BERHAD (8029-A)**  
(Incorporated in Malaysia)

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

We, Philip Wallace Smith and Tan Sri Ahmad bin Mohd Don, two of the Directors of Zurich Insurance Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 21 to 163 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of the financial performance and the cash flows of the Company for the financial year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 29 March 2017.



PHILIP WALLACE SMITH  
DIRECTOR



TAN SRI AHMAD BIN MOHD DON  
DIRECTOR

Kuala Lumpur  
29 March 2017

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

I, Tang Loon Khoon, being the officer primarily responsible for the financial management of Zurich Insurance Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 21 to 163 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.



TANG LOON KHOON

Subscribed and solemnly declared by the abovenamed Tang Loon Khoon at Kuala Lumpur in the Federal Territory on 29 March 2017.

Before me,



COMMISSIONER FOR OATHS



## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZURICH INSURANCE MALAYSIA BERHAD

(Incorporated in Malaysia)

(Company No. 8029 A)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Our opinion

In our opinion, the financial statements of Zurich Insurance Malaysia Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

#### What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 163.

#### Basis for opinion

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

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

#### Independence and other ethical responsibilities

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



## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZURICH INSURANCE MALAYSIA BERHAD (CONTINUED)

(Incorporated in Malaysia)

(Company No. 8029 A)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### Information other than the financial statements and auditors' report thereon

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

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

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

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

#### Responsibilities of the Directors for the financial statements

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

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



## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZURICH INSURANCE MALAYSIA BERHAD (CONTINUED)

(Incorporated in Malaysia)

(Company No. 8029 A)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### Auditors' responsibilities for the audit of the financial statements

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

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

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



## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZURICH INSURANCE MALAYSIA BERHAD (CONTINUED)

(Incorporated in Malaysia)

(Company No. 8029 A)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

### OTHER MATTERS

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PRICEWATERHOUSECOOPERS  
(No. AF-1146)  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Shirley Goh'.

SHIRLEY GOH  
(No. 1778/08/2018(J))  
Chartered Accountant

Kuala Lumpur  
29 March 2017

**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	<b>Note</b>	<b>31.12.2016 RM'000</b>	<b>31.12.2015 RM'000</b>
<b>ASSETS</b>			
Property, plant and equipment	4	15,706	23,473
Intangible assets	5	4,239	11,137
Investment properties	6	303,490	330,437
Investments	7	7,051,996	7,464,970
Available-for-sale financial assets		5,275,699	5,665,938
Financial assets at fair value through profit or loss		1,396,545	1,365,618
Loans and receivables	8	379,752	433,414
Reinsurance assets	9	29,208	170,154
Insurance receivables	10	34,801	108,272
Other receivables	11	14,715	98,558
Tax recoverable		27,910	32,706
Deferred tax assets	13	31,467	39,916
Cash and cash equivalents		186,377	249,523
Non-current assets classified as held-for-sale	12(a)	-	143,102
Assets of a disposal group classified as held-for-sale	12(b)	1,058,932	-
<b>Total assets</b>		<b>8,758,841</b>	<b>8,672,248</b>
<b>EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES</b>			
Share capital	14	579,000	579,000
Retained earnings	15	816,882	663,879
Other reserves	15	20,887	17,084
Reserves of a disposal group classified as held-for-sale	12(b)	1,385	-
<b>Total equity</b>		<b>1,418,154</b>	<b>1,259,963</b>
Insurance contract liabilities	16	4,461,662	5,468,214
Deferred tax liabilities	13	113,592	108,903
Other liabilities	17	77,258	181,367
Insurance payables	18	1,683,968	1,633,380
Provision for life agents' retirement benefits	19	554	629
Current tax liabilities		12,830	19,792
Liabilities of a disposal group assets classified as held-for-sale	12(b)	990,823	-
<b>Total liabilities</b>		<b>7,340,687</b>	<b>7,412,285</b>
<b>Total equity, policyholders' funds and liabilities</b>		<b>8,758,841</b>	<b>8,672,248</b>

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

**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>Continuing operations</b>			
Gross earned premiums	20(a)	770,689	794,511
Premiums ceded to reinsurers	20(b)	<u>(61,091)</u>	<u>(61,990)</u>
<b>Net earned premiums</b>		<u>709,598</u>	<u>732,521</u>
Investment income	21	347,461	306,789
Realised gains and losses	22	(49,918)	13,463
Fair value gains and losses	23	56,546	(11,612)
Fee and commission income	24(a)	<u>6,529</u>	<u>4,430</u>
<b>Other revenue</b>		<u>360,618</u>	<u>313,070</u>
<b>Total revenue</b>		<u>1,070,216</u>	<u>1,045,591</u>
Gross benefits and claims paid	25(a)	(992,468)	(879,922)
Claims ceded to reinsurers	25(b)	47,381	48,421
Gross change to contract liabilities	25(c)	226,399	38,850
Change in contract liabilities ceded to reinsurers	25(d)	<u>(1,007)</u>	<u>(6,882)</u>
<b>Net claims</b>		<u>(719,695)</u>	<u>(799,533)</u>
Fee and commission expenses	24(b)	(110,215)	(108,451)
Management expenses	26	(133,923)	(135,378)
Other operating income/(expenses) - net	27	<u>22,407</u>	<u>(935)</u>
<b>Other expenses</b>		<u>(221,731)</u>	<u>(244,764)</u>
Profit before taxation from continuing operations		128,790	1,294
Taxation	28	<u>(41,387)</u>	<u>(12,100)</u>
<b>Net profit/(loss) for the financial year from continuing operations</b>		87,403	(10,806)
<b>Discontinued operations:</b>			
Net profit for the financial year from discontinued operations	42	<u>65,600</u>	<u>62,049</u>
<b>Net profit for the financial year</b>		<u>153,003</u>	<u>51,243</u>
<b>Basic/diluted earnings/(loss) per share (sen)</b>	30		
Continuing operations		15.10	(1.87)
Discontinued operations		<u>11.33</u>	<u>10.72</u>
		<u>26.43</u>	<u>8.85</u>

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



**ZURICH INSURANCE MALAYSIA BERHAD (8029-A)**  
(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>Net profit for the financial year</b>		153,003	51,243
<b>Other comprehensive income/(loss):</b>			
Item that will not be reclassified to profit or loss			
Fair value gain on asset revaluation reserve arising during the financial year			
- Gross fair value change		-	-
- Deferred tax	13	-	78
Net gains		-	78
Item that may be subsequently reclassified to profit or loss			
Fair value change on available-for-sale financial assets, net of deferred tax:			
- Gross fair value change	7(c)	21,396	(21,510)
- Deferred tax	13	(556)	1,239
Net gains/(losses)		20,840	(20,271)
Change in insurance contract liabilities arising from net fair value changes	16(a)	(15,652)	11,183
Other comprehensive income/(loss) for the financial year, net of tax		5,188	(9,088)
Comprising:			
Continuing operations		6,546	(8,832)
Discontinued operations		(1,358)	(256)
		5,188	(9,088)
<b>Total comprehensive income for the financial year</b>		<b>158,191</b>	<b>42,233</b>
Comprising:			
Continuing operations		93,949	42,489
Discontinued operations		64,242	(256)
		158,191	42,233

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

**ZURICH INSURANCE MALAYSIA BERHAD (8029-A)**  
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Issued and fully paid ordinary shares of RM1 each		Non-distributable			Retained earnings			Total
	Numbers of shares	Nominal value	Available- for-sale fair value reserve	Asset revaluation reserve	Reserves of a disposal group classified as held-for-sale	Non-Par unallocated surplus <sup>1</sup>	Distributable retained earnings	Total retained earnings	
	'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	579,000	579,000	5,956	11,128	-	343,569	320,310	663,879	1,259,963
Net profit for the financial year	-	-	-	-	-	45,379	107,624	153,003	153,003
Other comprehensive income/(loss) for the financial year	-	-	6,546	-	(1,358)	-	-	-	5,188
Transfer to reserves of a disposal group classified as held-for-sale (Note 12(b))	-	-	(2,743)	-	2,743	-	-	-	-
At 31 December 2016	<u>579,000</u>	<u>579,000</u>	<u>9,759</u>	<u>11,128</u>	<u>1,385</u>	<u>388,948</u>	<u>427,934</u>	<u>816,882</u>	<u>1,418,154</u>
At 1 January 2015	579,000	579,000	15,044	11,050	-	286,877	325,759	612,636	1,217,730
Net profit/(loss) for the financial year	-	-	-	-	-	56,692	(5,449)	51,243	51,243
Other comprehensive (loss)/income for the financial year	-	-	(9,088)	78	-	-	-	-	(9,010)
At 31 December 2015	<u>579,000</u>	<u>579,000</u>	<u>5,956</u>	<u>11,128</u>	<u>-</u>	<u>343,569</u>	<u>320,310</u>	<u>663,879</u>	<u>1,259,963</u>

<sup>1</sup>In accordance with the FSA, the unallocated surplus of the Non-Participating ("Non-Par") fund is only available for distribution to the shareholders upon approval by the Appointed Actuary. There was no transfer from Non-Par fund unallocated surplus for the financial year ended 31 December 2016 (2015: Nil).

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

**ZURICH INSURANCE MALAYSIA BERHAD (8029-A)**  
(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>OPERATING ACTIVITIES</b>			
Cash utilised in operating activities	31	(356,171)	(408,052)
Dividend/distribution income received		55,630	49,266
Interest/profit income received		300,501	258,458
Rental income on investment properties received		8,033	14,316
Income tax paid		<u>(45,071)</u>	<u>(39,267)</u>
Net cash outflows from operating activities		<u>(37,078)</u>	<u>(125,279)</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		92	96
Purchase of property, plant and equipment	4	(1,922)	(6,165)
Purchase of intangible assets	5	<u>(714)</u>	<u>(3,588)</u>
Net cash outflows from investing activities		<u>(2,544)</u>	<u>(9,657)</u>
Net decrease in cash and cash equivalents		(39,622)	(134,936)
Cash and cash equivalents at the beginning of the financial year		249,523	384,459
Transfer to assets of disposable group classified as held-for-sale	12(b)	<u>(23,524)</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the financial year</b>		<u><u>186,377</u></u>	<u><u>249,523</u></u>
<b>Cash and cash equivalents comprise:</b>			
Cash and bank balances		<u>186,377</u>	<u>249,523</u>

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

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016**

### **1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

The Company is an unquoted public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company are as follows:

Registered office

9th Floor, Menara Zurich  
12, Jalan Dewan Bahasa  
50460 Kuala Lumpur

Principal place of business

11th Floor, Menara Zurich  
12, Jalan Dewan Bahasa  
50460 Kuala Lumpur

The Company is engaged principally in the underwriting of life insurance business, including investment-linked and annuity business, and all classes of general insurance business. There have been no significant changes in the nature of these activities during the financial year other than as disclosed in Note 12(b) to the financial statements.

The Directors regard ZIC as the immediate holding company and ZIG as the ultimate holding company. Both companies are incorporated in Switzerland.

ZIG is listed on the SIX Swiss Exchange and produces financial statements available for public use.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 29 March 2017.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

#### **2.1 Basis of preparation**

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act, 1965 in Malaysia.

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework ("the RBC Framework") as at the date of the statement of financial position.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.1 Basis of preparation (continued)**

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires the Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

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

#### **(a) Standards, amendments to published standards and interpretations**

- (i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective to the Company

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company's financial year beginning on 1 January 2016 are as follows:

- Amendments to MFRS 101 "Presentation of Financial Statements – Disclosure Initiative"
- Amendments to MFRS 10, 12 and 128 "Investment Entities – Applying the Consolidation Exception"
- Amendments to MFRS 116 and 138 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Annual Improvements to MFRSs 2012 – 2014 Cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

**(a) Standards, amendments to published standards and interpretations (continued)**

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

(a) Effective from financial year beginning on or after 1 January 2017

- Amendments to MFRS 107 “Statement of Cash Flows – Disclosure Initiative” introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 “Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses” clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

**(a) Standards, amendments to published standards and interpretations (continued)**

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(b) Effective from financial year beginning on or after 1 January 2018

- MFRS 9 “Financial Instruments” will replace MFRS 139 “Financial Instruments: Recognition and Measurement”.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (“OCI”). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

**(a) Standards, amendments to published standards and interpretations (continued)**

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(b) Effective from financial year beginning on or after 1 January 2018 (continued)

- Amendments to MFRS 4 – Applying MFRS 9 “Financial Instruments” with MFRS 4 “Insurance Contracts”

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 “Financial Instruments” before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 “Insurance Contracts”, the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide two different approaches for entities:

- (i) a temporary exemption from MFRS 9 for entities that meet specific requirements; and
- (ii) the overlay approach.

Both approaches are optional.

- Amendments to MFRS 140 “Transfers of Investment Property” clarify that to transfer to, or from investment properties, there must be a change in use. A change in use would involve an assessment of whether a property meet, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management’s intention in isolation is not sufficient to support a transfer of property.

The amendments also clarify the same principle applies to assets under construction.

- IC Interpretation 22 “Foreign Currency Transactions and Advance Considerations” applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the ‘date of the transaction’ to record foreign currency transactions.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

**(a) Standards, amendments to published standards and interpretations (continued)**

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

- (c) Effective from financial year beginning on or after 1 January 2019

- MFRS 16 “Leases” supersedes MFRS 117 “Leases” and the related interpretations.

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

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

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 “Property, Plant and Equipment”, and the lease liability is accreted over time with interest expense recognised in the income statement.

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

None of the standards listed above were expected to have a significant effect on the financial statements of the Company upon initial application, except for MFRS 9 and Amendments to MFRS 4. The Company has yet to assess the full impact of MFRS 9 and Amendments to MFRS 4 onto the Company’s accounting policies. The Company will also consider the impact of the remaining phases of MFRS 9 and Amendments to MFRS 4 when completed by the Malaysian Accounting Standards Board (“MASB”).

All other new amendments to the published standards and interpretations to existing standards issued by the MASB effective for financial periods subsequent to 1 January 2016 are not relevant to the Company.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies**

The following accounting policies have been used consistently in dealing with items which are considered material to the financial statements.

##### **(a) Property, plant and equipment and depreciation**

Property, plant and equipment are initially stated at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised in equal instalments over the period of their respective leases or earlier if the expected useful life is lower than the leasehold period. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets, or their revalued amounts, to their residual values over their estimated useful lives. The expected useful lives of the assets are as follows:

Leasehold land	Over the remaining leasehold period
Freehold and leasehold buildings	50 years
Furniture, fittings and office equipment	5 to 10 years
Motor vehicles	10 years
Renovation	10 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2(g) to the financial statements on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(b) Leases**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

**(i) Accounting by lessee**

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight line basis over the lease period.

**(ii) Accounting by lessor**

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

**(c) Investment properties**

Investment properties, comprising principally land and office buildings, are held for long term rental yields or for capital appreciation or both. Such properties are measured initially at its cost, including related transaction costs and borrowing costs if the investment properties meet the definition of qualifying asset.

After initial recognition, investment properties are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed monthly, and a formal valuation by an independent professional valuer is carried out once in every three years. All gains or losses arising from a change in fair value of investment properties are recognised in profit or loss.

Investment properties are derecognised either when 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 profit or loss in the financial year in which they arise.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(c) Investment properties (continued)**

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If a self-occupied property becomes an investment property, the fair value changes of the property upon the reclassification are recognised in an equity reserve. Increases are recognised directly in equity, unless there was an impairment loss recognised for the same property in prior years and a portion of the increase is recognised in profit or loss to the extent of that impairment loss. Decreases are recognised in profit or loss for any decrease in excess of the amount included in the revaluation surplus for that property.

**(d) Intangible assets**

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable software systems controlled by the Company, which do not form an integral part of the hardware, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of three years.

**(e) Investments and other financial assets**

The Company classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss ("FVTPL"), loans and receivables ("LAR") and available-for-sale ("AFS") financial assets. The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(e) Investments and other financial assets (continued)**

**(i) Financial assets measured at FVTPL**

The Company classifies investments acquired for the purpose of selling in the short-term as held-for-trading, as FVTPL. Derivatives are also classified as held-for-trading unless they are designated as hedges.

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

These investments are initially recorded at fair value and transaction costs are expensed in profit or loss. Subsequent to initial recognition, these assets are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in profit or loss.

**(ii) LAR**

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market but do not include insurance receivables. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the asset. All transaction costs directly attributable to the acquisition are also included in the cost of the asset. After initial measurement, LAR are measured at amortised cost, using the effective yield method, less allowance for impairment.

Gains and losses are recognised profit or loss when the assets are derecognised or impaired, as well as through the amortisation process.

Refer to Note 2.2(i) to the financial statements for further details on the accounting policy on loans.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(e) Investments and other financial assets (continued)**

**(iii) AFS financial assets**

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other assets categories. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, AFS financial assets are remeasured at fair value.

Fair value gains and losses of monetary and non-monetary financial assets are reported in the statement of comprehensive income and reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired, except for the life insurance contracts with discretionary participating features, where such fair value gains or losses are reported as a separate component of insurance contract liabilities. Fair value gains and losses of monetary instruments denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the instrument and other changes in the carrying amount of the instrument. The translation differences on monetary instruments are recognised in profit or loss; translation differences on non-monetary instruments are reported in the statement of comprehensive income and shown as a separate component of equity except for the life insurance contract with discretionary participating features, where such fair value gains or losses are reported as a separate component of insurance contract liabilities until the investment is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred through the statement of comprehensive income or from insurance contract liabilities to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(f) Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published (closing) price on the date of the statement of financial position.

For investments in unit and real estate investment trusts, fair value is determined by reference to published (closing) price.

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flows analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate, over-night and time deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued interest/profit. The fair value of fixed interest/yield-bearing deposits is measured using estimated discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

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.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(g) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss is charged to profit or loss immediately. A subsequent increase 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. The reversal is recognised in profit or loss immediately.

##### **(h) Impairment of financial assets**

The Company assesses at each date of the statement of financial position, whether a financial asset or group of financial assets 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 (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate/yield. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recorded in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at date of the statement of financial position.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**(i) Financial assets carried at amortised cost (continued)**

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**(ii) 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 profit or loss, is transferred from equity through the statement of comprehensive income or from insurance contract liabilities to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through profit or loss 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 profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(i) Loans**

Loans are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of loan is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amounts and the present value of estimated future cash flows discounted at the effective interest rates. This includes interest that is suspended and/or recognised to the extent of the recoverable amount.

The amount of specific allowance also takes into account the collateral value and recoverable amount of interest due, which may be discounted to reflect the impact of the recovery process which is estimated to be between one to five years, depending on default condition of the loan, type of collateral and whether under litigation. The amount of the allowance is recognised in profit or loss.

Where the collateral is property, the net realisable value of the property is determined by using its fair value which is based on open market value by independent property valuers, adjusted if necessary, for any difference in the nature, location or condition of the specific asset, while for shares, it is based on the last transacted price. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets, adjusted if necessary, for any difference in nature, location or condition of specific asset or discounted cash flow projections. The sensitivity analysis is described in the Note 8 to the financial statements.

Consistent with previous years, loans are classified as non-performing when repayments or interests are in arrears for more than six months from the first day of default or after maturity date.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(j) Insurance receivables**

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.2(h) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(k) to the financial statements, have been met.

**(k) Financial instrument - Derecognition of financial assets**

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred, and the Company has also transferred substantially all risks and rewards of ownership.

**(l) Equity instruments**

Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributed to the issue of these shares are recognised in equity, net of tax.

Dividends on ordinary share capital

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

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(m) Product classification**

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

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

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

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

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

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

Under the terms of the contracts, surpluses in the DPF fund can be distributed on a 90/10 basis to the policyholders and the shareholders 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.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(m) Product classification (continued)**

Under the RBC Framework for Insurers, statutory liabilities are calculated based on the Gross Premium Valuation ("GPV") method which takes into consideration not only the guaranteed but also the discretionary benefits in the case of participating products and the underlying assumptions are based on the Company's actual experience.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract 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.

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

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 the statement of financial position.

**(n) Reinsurance**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(n) Reinsurance (continued)**

Gains or losses on buying reinsurance are recognised in profit or loss immediately at the date of purchase and are not amortised.

The Company also assumes reinsurance risk in the normal course of business for life insurance and general (non-life) insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

**(o) Life insurance underwriting results**

The surplus transferable from the life participating fund to profit or loss is based on the surplus determined by an annual actuarial valuation of the long-term insurance contract liabilities to the policyholders.

Premium income

Premium income includes premium recognised in the life fund and the investment-linked fund. Premium income of the life fund is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date, and subsequent premium is recognised when due.

At the end of the financial year, all due premiums are accounted to the extent that they can be reliably measured.

Premium income of the investment-linked fund includes 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. Net creation of units is recognised on a receipt basis.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(o) Life insurance underwriting results (continued)**

Reinsurance premiums

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

Benefits, claims and expenses

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

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

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

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

Commission and agency expenses

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

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(p) General insurance underwriting results**

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

##### Gross premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period. Premiums from direct business are recognised during the financial period upon the issuance of insurance policies. Premiums in respect of risks incepted for which insurance policies have not been raised as of the date of the statement of financial position are accrued at that date.

##### Reinsurance premiums

Inwards facultative reinsurance premiums are recognised in the financial period in respect of the facultative risks assumed during that particular financial period, as in the case of direct policies, following the individual risk's inception date.

Inwards treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inception dates of these risks and contractually accounted for, as such to reinsurers under the terms of the proportional treaties. In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premiums are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

##### Premium liabilities

Premium liabilities refer to the higher of:

- (i) the aggregate of the unearned premium reserves ("UPR"); or
- (ii) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the provision of risk margin for adverse deviation ("PRAD") calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(p) General insurance underwriting results (continued)**

UPR represents the portion of the net premiums of general insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

In determining the UPR at the date of the statement of financial position, the method that most accurately reflects the actual unearned premium is used, as follows:

- 25% method for marine and aviation cargo, and transit business;
- time apportionment method for non-annual policies reduced by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM; and
- 1/365th method for all other classes of general business in respect of Malaysian policies, reduced by the corresponding percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Claims and expenses

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the date of the statement of financial position.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at date of the statement of financial position, using a mathematical method of estimation.

Commission expenses and acquisition costs

The gross costs of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums are recognised as incurred and properly allocated to the financial periods in which it is probable they give rise to income.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(q) Insurance contract liabilities**

###### **(i) Life actuarial liabilities**

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

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The 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 valuation basis, including the determination of the appropriate risk discount rate, is in accordance with Part D of the RBC Framework and Appendix VII: Valuation Basis for Life Insurance Liabilities of the RBC Framework, and any related circulars issued by BNM relevant to the guidelines.

The liability in respect of DPF insurance contract is taken as the higher of the guaranteed benefit liabilities loaded with provision of risk margin for adverse deviation or the total benefit liabilities at the contract level derived as stated above.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the liabilities shall be the higher of the current accumulated amount (as declared to the policy owners), or the sum of the current accumulated amount and liabilities calculated using the prospective actuarial valuation method.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(q) Insurance contract liabilities (continued)**

**(ii) Surplus in the life insurance contracts**

Surpluses with the DPF fund are distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. The Company, however, has the discretion over the amount and timing of the distribution of these surpluses to policyholders and shareholders which are determined by an actuarial valuation of the long term liabilities to the policyholders at the date of the statement of financial position and is made in accordance with the provision of the FSA and related regulations by the Company's Appointed Actuary.

Unallocated surplus of DPF insurance contracts where the amounts of surplus are yet to be allocated or distributed by the Company's Appointed Actuary to either policyholders or shareholders by the end of the financial year, are classified as part of life insurance contract liabilities.

**(iii) AFS fair value adjustment**

Where unrealised gains or losses arise on AFS financial assets of the life participating fund, the adjustment to the insurance contract liabilities equal to the effect that the realisation of those gains or losses at the end of the reporting periods would have on those liabilities which is recognised directly in the other comprehensive income.

**(iv) Net asset value attributable to unitholders**

The unit liability of investment-linked contract is equal to the net asset value of the investment-linked funds, which represents net premium received and investment returns credited to the policy less deduction for mortality and morbidity costs and expense charges.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(q) Insurance contract liabilities (continued)**

**(v) General (non-life) insurance contract liabilities**

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

These liabilities comprise outstanding claims provision and premium liabilities.

Outstanding claims provision which includes a margin for adverse deviation is based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of the statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques on empirical data. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Premium liabilities refer to the reserves related to premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. The Company engages an independent external actuary to perform the claims and premium liabilities estimation. A number of methods are employed initially in the estimation of ultimate claims reserves using the Company's own historical experience and other relevant market quantitative and qualitative information. The valuation methods used include the Incurred Claim Development method, the Paid Claim Development method, the Bornhuetter-Ferguson method and Expected Loss Ratio method. The final estimates are selected after due consideration is given to the strengths and weaknesses of the various methods used and the information available at hand. To mitigate the potential effect of uncertainty, a risk margin is also incorporated into the ultimate claims estimates. The provision for adverse deviation is set at 75 percent confidence level as required by BNM.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(r) Other revenue recognition**

Interest income

Interest income is recognised on an accrual basis using the effective yield method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the investment and continues unwinding the discount as interest income.

Other interest income including the amount of amortisation of premiums and accretion of discounts is recognised on a time proportion basis that takes into account the effective yield of the assets.

Dividend income

Dividend income is recognised as investment income when the Company's right to receive payment is established.

Rental income

Rental income on self-occupied and investment properties is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessee is recognised as a reduction of rental income over the lease term on a straight-line basis.

Lease rental income net of payment of lease rental expenses made under operating lease of the same properties is recognised on straight line basis over the lease term.

Realised gains and losses on investments

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

Fees and commission income

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

Management fee income earned from the investment-linked business is recognised on an accrued basis based on the net asset value of the investment-linked funds.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(s) Foreign currencies**

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the date of the statement of financial position are translated to Ringgit Malaysia at exchange rates prevailing at the date of the statement of financial position. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the profit or loss.

##### **(t) Income taxes**

Income taxes on the profit or loss for the financial year comprises current and deferred tax.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the tax authorities. The tax rates used to compute the amount are those that are enacted or substantively enacted at the date of the statement of financial position.

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits. The tax expense is based on the method prescribed under the Income Tax Act, 1967 for life and general insurance businesses. Current tax is recognised in the profit or loss.

Deferred tax is provided for, using the liability method. 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 future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each date of the statement of financial position and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be utilised.

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 date of the statement of financial position.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.2 Summary of significant accounting policies (continued)**

##### **(t) Income taxes (continued)**

Deferred tax is recognised as income or an expense and included in profit or loss for the financial period, except when it arises from a transaction which is recognised in other comprehensive income or directly in equity or directly in the insurance contract liabilities, in which case the deferred tax is also recognised in other comprehensive income or directly in equity or directly in the insurance contract liabilities.

##### **(u) Provisions**

Provisions are recognised when the Company has a present obligation, either legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each date of the statement of financial position 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. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost expense.

##### **(v) Employee benefits**

###### Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

###### Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions or variable contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to the employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF"). Once the contributions have been paid, the Company has no further payment obligations.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(w) Provision for life agents' retirement benefits**

The Company operates a retirement benefits scheme for its eligible life agents, calculated in accordance with the terms and conditions as per the respective Agent Retirement Plan Arrangement.

The retirement benefits earned by the eligible life agents on and subsequent to 2001 were funded through investments in an investment-linked fund managed by the Company.

The retirement benefits earned by the eligible life agents who opted to remain in the scheme prior to 2001 were unfunded and have been recorded as provision for life agents' retirement benefits.

In accordance with the requirements of the MFRS 119 Employee Benefits, the scheme is treated as a funded defined benefit scheme or an unfunded defined benefit scheme as appropriate.

**(x) Other financial liabilities and insurance payables**

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

A financial liability and an insurance payable are derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

**(y) Contingent liabilities and contingent assets**

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of significant accounting policies (continued)**

**(z) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, and deposits held at call 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.

**(aa) Non-current assets (or disposal groups) held-for-sale**

Non-current assets (or disposable groups) are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **(a) Critical accounting estimates and assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

##### **(i) Valuation of life insurance contract liabilities**

The liability for life insurance contracts is based on current assumptions, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates, and discount rates. The Company bases mortality and morbidity on established industry and Malaysian tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate. Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

Discount rate for non-participating policies, guaranteed benefits of participating policies and the non-unit liability of investment-linked policies accord a level of guarantee which is no less certain than that accorded by a Malaysian Government Security ("MGS"). In the case of the total benefits liabilities of participating policies, the discount rate is based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

#### **(a) Critical accounting estimates and assumptions (continued)**

##### **(ii) Valuation of general insurance contract liabilities**

The estimation of claims liabilities or equivalently, the ultimate claims liability arising from claims made under an insurance contract, is the Company's most critical accounting estimate.

Provision is made for the estimated cost of claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with a risk margin for adverse deviation ("PRAD"). PRAD is an additional component to the liability value aimed at ensuring that the value of the insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. The estimated cost of claims also includes both direct and indirect expenses that are expected to be incurred in settling those claims.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, incurred but not reported claims form the majority of the liability in the statement of financial position.

The Company engaged an independent external actuary to perform the claims liabilities estimation. A number of methods were employed initially in the estimation of ultimate claims reserves using the Company's own historical experience and other relevant market quantitative and qualitative information. The final estimates were selected after due consideration was given to the strengths and weaknesses of the various methods used and the information available at hand. To mitigate the potential effect of uncertainty, a risk margin was also incorporated into the ultimate claims estimates.

Due to the fact that the ultimate claims liability is dependent upon the outcome of future events such as the size of court awards, the attitudes of claimants towards settlement of their claims, and social and economic inflation, there is an inherent uncertainty in any estimate of ultimate claims liability. As such, there is a limitation to the accuracy of those estimates. In fact, it is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may vary significantly from the projections.

##### **(iii) Impairment assessment on non-performing loans**

Judgement is applied in determining the amount that may be recovered from long outstanding non-performing loans via the disposal of collaterals pledged to those loans.

The actual amounts that will be recovered from these non-performing loans are largely dependent on the values that those collaterals can fetch should foreclosure take place or if the borrowers agree to settlements with the Company, and lastly the time taken to complete the recovery of these loans. Valuations of collaterals are reviewed by an independent valuer every three years and the impairment assessment is done monthly.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**4. PROPERTY, PLANT AND EQUIPMENT**

	Freehold and leasehold land	Freehold and leasehold buildings	Furniture, fittings and office equipment	Motor vehicles	Renovation	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>						
At 1 January 2015	2,573	4,181	67,266	2,685	57,224	133,929
Additions	-	-	4,724	432	1,009	6,165
Write-offs	-	-	-	-	(679)	(679)
Disposals	-	-	(60)	(899)	-	(959)
At 31 December 2015	2,573	4,181	71,930	2,218	57,554	138,456
Additions	-	-	724	88	1,110	1,922
Write-offs	-	-	(798)	-	(2,824)	(3,622)
Disposals	-	-	-	(489)	-	(489)
Transfer to assets of a disposal group classified as held-for-sale (Note 12(b))	-	-	(8,119)	(643)	(3,141)	(11,903)
At 31 December 2016	2,573	4,181	63,737	1,174	52,699	124,364

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Freehold and leasehold land	Freehold and leasehold buildings	Furniture, fittings and office equipment	Motor vehicles	Renovation	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Accumulated depreciation and impairment loss</b>						
At 1 January 2015	53	373	60,283	1,595	50,108	112,412
Charge for the financial year (Note 26)						
- continuing operations	15	124	1,536	102	1,612	3,389
- discontinued operations	-	-	570	80	90	740
Write-offs	-	-	-	-	(679)	(679)
Disposals	-	-	(42)	(837)	-	(879)
At 31 December 2015	68	497	62,347	940	51,131	114,983
Charge for the financial year (Note 26)						
- continuing operations	16	551	1,792	100	2,004	4,463
- discontinued operations	-	-	866	74	312	1,252
Write-offs	-	-	(798)	-	(2,824)	(3,622)
Disposals	-	-	-	(401)	-	(401)
Transfer to assets of a disposal group classified as held-for-sale (Note 12(b))	-	-	(5,341)	(128)	(2,548)	(8,017)
At 31 December 2016	84	1,048	58,866	585	48,075	108,658
<b>Net carrying amount</b>						
At 31 December 2015	2,505	3,684	9,583	1,278	6,423	23,473
At 31 December 2016	2,489	3,133	4,871	589	4,624	15,706

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**5. INTANGIBLE ASSETS**

	<b>Computer software</b>	<b>Work-in- progress</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>			
At 1 January 2015	34,066	-	34,066
Additions	2,083	1,505	3,588
Write-offs	(1,537)	-	(1,537)
At 31 December 2015	34,612	1,505	36,117
Additions	714	-	714
Transfer from/(to)	1,505	(1,505)	-
Transfer to assets of a disposal group classified as held-for-sale (Note 12(b))	(14,110)	-	(14,110)
At 31 December 2016	<u>22,721</u>	<u>-</u>	<u>22,721</u>
<b>Accumulated amortisation</b>			
At 1 January 2015	21,837	-	21,837
Amortisation during the financial year (Note 26)			
- continuing operations	2,196	-	2,196
- discontinued operations	1,530	-	1,530
Write-offs	(583)	-	(583)
At 31 December 2015	24,980	-	24,980
Amortisation during the financial year (Note 26)			
- continuing operations	2,205	-	2,205
- discontinued operations	1,440	-	1,440
Transfer to assets of a disposal group classified as held-for-sale (Note 12(b))	(10,143)	-	(10,143)
At 31 December 2016	<u>18,482</u>	<u>-</u>	<u>18,482</u>
<b>Net carrying amount</b>			
At 31 December 2015	<u>9,632</u>	<u>1,505</u>	<u>11,137</u>
At 31 December 2016	<u>4,239</u>	<u>-</u>	<u>4,239</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**6. INVESTMENT PROPERTIES**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	330,437	330,108
Fair value changes (credited)/debited to statement of profit or loss		
- Continuing operations (Note 23)	(15,019)	(218)
- Discontinued operations (Note 23)	32	-
Disposals	-	(220)
Transfer from non-current assets classified as held-for-sale (Note 12(a))	-	767
Transfer to assets of a disposal group classified as held-for-sale (Note 12(b))	(11,960)	-
At 31 December	<u>303,490</u>	<u>330,437</u>

The assessment of the fair values of the investment properties as at 31 December 2016 was done in-house based on the properties' fair market value using the direct value comparison and income approach revalued by external independent valuers where there was a need for an independent opinion. The fair values of the investment properties as at 31 December 2015 were revalued by external independent valuers. Fair value changes are recorded in profit or loss.

Rental income and the rates and maintenance expenses in respect of investment properties are disclosed in Note 21 to the financial statements.

The titles to certain investment properties amounting to RM66,150,000 (2015: RM66,368,800) are in the process of being transferred to the Company. Risks, rewards and effective titles to these investment properties have been passed to the Company upon unconditional completion of the acquisition of those properties. The Company has submitted the relevant documents to the authorities for transfer of legal titles and is awaiting the process and finalisation of these transfers to be completed.

The fair value hierarchy of investment properties is disclosed in Note 37 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**7. INVESTMENTS**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Malaysian Government Securities/ Government Investment Issues	1,154,983	1,105,907
Corporate debt securities	4,102,467	4,297,930
Equity securities	1,239,747	1,214,667
Unit trusts	175,047	413,052
Loans	379,752	433,414
	<u>7,051,996</u>	<u>7,464,970</u>

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

Available-for-sale ("AFS") financial assets	5,275,699	5,665,938
Fair value through profit or loss ("FVTPL") financial assets	1,396,545	1,365,618
Loans and receivables ("LAR") (Note 8)	379,752	433,414
	<u>7,051,996</u>	<u>7,464,970</u>

Investments that mature after 12 months:

AFS financial assets	4,846,725	5,007,697
FVTPL financial assets	175,912	220,352
LAR (Note 8)	7,457	7,811
	<u>5,030,094</u>	<u>5,235,860</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**7. INVESTMENTS (CONTINUED)**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(a) AFS financial assets</b>		
Malaysian Government Securities/Government Investment Issues	1,139,852	1,090,191
Corporate debt securities		
- Unquoted in Malaysia	3,939,664	4,090,193
Equity securities		
- Quoted in Malaysia	183,722	233,853
- Unquoted in Malaysia	11,438	8,895
Unit trusts		
- Quoted in Malaysia	1,023	5,613
- Unquoted in Malaysia	-	237,193
	<u>5,275,699</u>	<u>5,665,938</u>
<b>(b) FVTPL financial assets</b>		
<b>Held-for-trading:</b>		
Equity securities		
- Quoted in Malaysia	494,797	414,570
Unit trusts		
- Quoted in Malaysia	60,024	65,624
	<u>554,821</u>	<u>480,194</u>
<b>Designated at FVTPL:</b>		
Malaysian Government Securities/Government Investment Issues	15,131	15,716
Corporate debt securities		
- Unquoted in Malaysia	162,803	207,737
Equity securities		
- Quoted in Malaysia	549,790	557,349
Unit trusts		
- Quoted in Malaysia	15,489	10,085
- Quoted outside Malaysia	614	-
- Unquoted outside Malaysia	97,897	94,537
	<u>841,724</u>	<u>885,424</u>
	<u>1,396,545</u>	<u>1,365,618</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**7. INVESTMENTS (CONTINUED)**

**(c) Carrying value of financial instruments**

The movements in the Company's financial assets (excluding loans and receivables) are summarised in the table below by measurement category.

	<b>AFS</b>	<b>FVTPL</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January 2015	5,353,025	1,222,489	6,575,514
Purchases	1,424,168	793,311	2,217,479
Disposals (sale and redemptions)	(1,103,741)	(636,484)	(1,740,225)
Fair value (losses)/gains recorded in:			
Statement of profit or loss (Note 23)	-	(13,390)	(13,390)
Other comprehensive income	(21,510)	-	(21,510)
Movement in impairment allowance (Note 23)	(12)	-	(12)
Amortisation/interest adjustment	14,008	(308)	13,700
At 31 December 2015	5,665,938	1,365,618	7,031,556
Purchases	1,557,196	489,593	2,046,789
Disposals (sale and redemptions)	(1,243,268)	(451,859)	(1,695,127)
Fair value (losses)/gains recorded in:			
Statement of profit or loss (Note 23)	-	(10,214)	(10,214)
Other comprehensive income	21,396	-	21,396
Amortisation/interest adjustment	14,849	(1,024)	13,825
Foreign exchange	-	4,431	4,431
Transfer to assets of a disposal group classified as held-for-sale (Note 12(b))	(740,412)	-	(740,412)
At 31 December 2016	5,275,699	1,396,545	6,672,244

The fair value hierarchy of investments is disclosed in Note 37 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**8. LOANS AND RECEIVABLES**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Loans arising from:		
Policy loans	255,050	251,312
Mortgage loans	139,910	123,094
Other secured loans	-	145,783
Unsecured loans	465	10,677
	<u>395,425</u>	<u>530,866</u>
Allowance for impairment	<u>(15,673)</u>	<u>(97,452)</u>
Net loans	<u>379,752</u>	<u>433,414</u>

The estimated fair values of the loans and receivables have been established by comparing current market interest rates for similar financial instruments to the rates offered when the loans and receivables were first recognised together with appropriate market credit adjustments except for loans which are non-performing ("NPL"), where the estimated recoverable fair value is the discounted amount of estimated future cash flows expected to be received.

The maturity structure of the loans and receivables is as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Receivables within 12 months:		
Net loans	372,295	425,603
Receivables after 12 months:		
Net loans (Note 7)	<u>7,457</u>	<u>7,811</u>
	<u>379,752</u>	<u>433,414</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**8. LOANS AND RECEIVABLES (CONTINUED)**

Included in the total loans portfolio net of allowance for impairment as at 31 December 2016, are several NPL amounting to approximately RM86,786,000 (2015: RM172,630,000). These NPL were collateralised by properties and/or shares as pledged by the borrowers. The Company has assessed the value of the collaterals or agreed settlement plans, and has made appropriate allowances for impairment where appropriate. Should the market value or adjusted value of the collaterals deviate by 10% or the recovery process be delayed by a year, particularly those loans with properties as collateral, there may be a potential shortfall in the net recoverable value of approximately RM17,603,000 (2015: RM15,285,000) for the NPL.

The net loans can be analysed as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(i) Outstanding loans before allowance for impairment analysed by loan type are as follows:		
Policy loans	255,050	251,312
Other term loans	130,158	268,118
Housing loans	10,158	11,354
Staff loans	59	82
	<u>395,425</u>	<u>530,866</u>
(ii) Outstanding loans before allowance for impairment analysed by type of customers are as follows:		
Policyholders	258,088	254,563
Business enterprises	130,136	268,096
Staff	96	464
Agents	483	496
Individuals	6,622	7,247
	<u>395,425</u>	<u>530,866</u>
(iii) Outstanding loans before allowance for impairment analysed by economic purpose are as follows:		
Policy loans	255,050	251,312
Construction	53,134	52,912
Purchase of landed properties/securities	87,138	214,973
Fixed assets other than land and building	45	65
Personal use	36	39
Working capital	22	11,565
	<u>395,425</u>	<u>530,866</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**8. LOANS AND RECEIVABLES (CONTINUED)**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(iv) Movements of NPL before allowance for impairment are as follows:		
Outstanding loans before allowance for impairment at the beginning of the year	270,082	271,892
Classified as non-performing	316	693
Transferred to performing	(648)	(1,049)
Amount written back in respect of recoveries	(99,705)	(1,446)
Amount written off	(67,586)	(8)
Outstanding loans before allowance for impairment at the end of the year	<u>102,459</u>	<u>270,082</u>
(v) Movements in the allowance for impairment for NPL are as follows:		
Balance at the beginning of financial year	97,452	99,460
Allowance for the financial year	-	94
Amount written back in respect of recoveries	(14,193)	(2,094)
Amount written off	(67,586)	(8)
Net (write-back)/allowance during the financial year (Note 23)	<u>(81,779)</u>	<u>(2,008)</u>
Balance at the end of the financial year	<u>15,673</u>	<u>97,452</u>
(vi) NPL before allowance for impairment analysed by loan type are as follows:		
Other term loans	101,148	268,123
Housing loans	1,311	1,959
	<u>102,459</u>	<u>270,082</u>
(vii) NPL before allowance for impairment analysed by type of customers are as follows:		
Policyholders	336	523
Business enterprises	101,126	268,101
Agents	464	454
Individuals	533	1,004
	<u>102,459</u>	<u>270,082</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**8. LOANS AND RECEIVABLES (CONTINUED)**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(viii) NPL before allowance for impairment analysed by economic purpose are as follows:		
Construction	53,134	52,912
Purchase of landed properties/securities	49,281	205,583
Personal use	22	22
Working capital	22	11,565
	<u>102,459</u>	<u>270,082</u>
(ix) Aging of NPL before allowance for impairment is as follows:		
Up to 1 year	-	931
1 to 5 years	431	403
More than 5 years	102,028	268,748
	<u>102,459</u>	<u>270,082</u>

The fair value of the collaterals held as at the date of the statement of financial position was RM422,573,000 (2015: RM569,333,000).

The fair value hierarchy of loans and receivable is disclosed in Note 37 to the financial statements.

**9. REINSURANCE ASSETS**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Reinsurers' share of insurance contract liabilities (Note 16)	<u>29,208</u>	<u>170,154</u>

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair values at the date of the statement of financial position.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**10. INSURANCE RECEIVABLES**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Due premiums including agents/brokers and co-insurers balances	31,647	98,006
Due from reinsurers and cedants	4,321	19,483
	<u>35,968</u>	<u>117,489</u>
Allowance for impairment	(1,167)	(9,217)
	<u>34,801</u>	<u>108,272</u>

**11. OTHER RECEIVABLES**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Outstanding proceeds from disposal of investments	1,572	4,549
Assets held under Malaysian Motor Insurance Pool ("MMIP")*	-	73,032
Deposits, prepayment and other receivables	13,143	20,977
	<u>14,715</u>	<u>98,558</u>

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances.

\* Assets held under MMIP as at 31 December 2015 include cash contribution made to MMIP of RM34,359,000. The remaining balances represent assets held under MMIP recognised by the Company based on quarterly statements received from MMIP of RM38,673,000. There is a net payable as at 31 December 2015 RM4,100,000 to MMIP after setting off the assets held under MMIP against the Company's share of MMIP's claims and premium liabilities amounting to RM7,649,000 included in Note 16 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**12. ASSETS CLASSIFIED AS HELD-FOR-SALE**

**(a) Non-current assets classified as held-for-sale**

Non-current assets classified as held-for-sale comprise investment properties identified for disposal with earnest deposits paid by the interested parties, and the Company is currently finalising the details of the sale and purchase agreements with the respective buyers.

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Carrying value</u>		
At 1 January	143,102	184,027
Disposed during the financial year	(143,102)	(40,158)
Transfer to investment properties (Note 6)	-	(767)
At 31 December	<u>-</u>	<u>143,102</u>

**(b) Discontinued operations**

In accordance with the requirements of Financial Service Act 2013 ("FSA") an insurer that carries on both classes of life insurance and general insurance businesses must take steps to split the businesses under separate legal entities before 1 July 2018.

The assets and liabilities of the general insurance business of the Company have been presented as a disposal group classified as held-for-sale following the approval by the Directors to dispose the business to another legal entity as required by the FSA. The proposed disposal is expected to be completed in the third quarter of 2017, subject to the approval granted by BNM.

Accordingly, the statement of financial position, statement of profit or loss, statement of comprehensive income and statement of cash flows of the General Insurance Fund have been classified as discontinued operations.

The components of assets and liabilities held-for-sale attributable to the discontinued operations are as follows:

**(i) Assets of a disposal group classified as held-for-sale**

	<b>31.12.2016</b>
	<b>RM'000</b>
Property, plant and equipment (Note 4)	3,886
Intangible assets (Note 5)	3,967
Investment properties (Note 6)	11,960
Investments	740,619
AFS	740,412
LAR	207
Reinsurance assets (Note 16)	147,836
Insurance receivables	60,547
Other receivables	63,582
Tax recoverable	3,011
Cash and cash equivalents	23,524
Total	<u>1,058,932</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**12. ASSETS CLASSIFIED AS HELD-FOR-SALE (CONTINUED)**

**(b) Discontinued operations (continued)**

**(i) Assets of a disposal group classified as held-for-sale (continued)**

The investment for a disposal group classified as held-for-sale are summarised as follows:

	<b>31.12.2016</b>
	<b>RM'000</b>
<b>AFS financial assets</b>	
Malaysian Government Securities/Government Investment Issues	135,167
Corporate debt securities	
- Unquoted in Malaysia	306,635
Equity securities	
- Quoted in Malaysia	52,138
Unit trusts	
- Quoted in Malaysia	290
- Unquoted in Malaysia	246,182
	<u>740,412</u>
 <b>Loans and receivables</b>	
Mortgage loans	<u>207</u>
 <b>Insurance receivables</b>	
Due premiums including agents/brokers and co-insurers balances	59,685
Due from reinsurers and cedants	<u>10,023</u>
	69,708
Allowance for impairment (Note 10)	<u>(9,161)</u>
	<u>60,547</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**12. NON-CURRENT ASSETS HELD-FOR-SALE (CONTINUED)**

**(b) Discontinued operations (continued)**

**(i) Assets of a disposal group classified as held-for-sale (continued)**

	<b>31.12.2016</b>
	<b>RM'000</b>
<b>Other receivables</b>	
Assets held under Malaysian Motor Insurance Pool ("MMIP")*	60,475
Deposits, prepayment and other receivables	<u>3,107</u>
	<u><u>63,582</u></u>

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances.

\* Assets held under MMIP include cash contribution made to MMIP of RM34,359,000. The remaining balances represent assets held under MMIP recognised by the Company based on quarterly statements received from MMIP of RM26,282,000. There is a net receivable as at 31 December 2016 of RM4,735,000 from MMIP after setting off the assets held under MMIP against the Company's share of MMIP's claims and premium liabilities amounting to RM5,446,000 included in Note 16 to the financial statements.

**(ii) Reserves of a disposal group classified as held-for-sale**

	<b>31.12.2016</b>
	<b>RM'000</b>
Available-for-sale reserve	<u><u>1,385</u></u>

**(iii) Liabilities of a disposal group classified as held-for-sale**

	<b>31.12.2016</b>
	<b>RM'000</b>
Insurance contract liabilities (Note 16)	789,987
Deferred tax liabilities (Note 13)	1,566
Other liabilities	73,364
Insurance payables	116,287
Current tax liabilities	<u>9,619</u>
	<u><u>990,823</u></u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**13. DEFERRED TAXATION**

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.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	<b>31.12.2016</b>			<b>31.12.2015</b>		
	<b>Life fund</b>	<b>General and Shareholders' funds</b>	<b>Total</b>	<b>Life fund</b>	<b>General and Shareholders' funds</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deferred tax assets						
- Recoverable within 12 months	-	113	113	-	235	235
- Recoverable after 12 months	-	31,354	31,354	-	39,681	39,681
	-	31,467	31,467	-	39,916	39,916
Deferred tax liabilities						
- Settled within 12 months	1,145	767	1,912	1,231	831	2,062
- Settled after 12 months	(114,737)	(2,333)	(117,070)	(107,841)	(3,124)	(110,965)
	(113,592)	(1,566)	(115,158)	(106,610)	(2,293)	(108,903)
Deferred tax (liabilities)/assets (net)	(113,592)	29,901	(83,691)	(106,610)	37,623	(68,987)
Comprising:						
Continuing operations	(113,592)	31,467	(82,125)	(106,610)	39,916	(66,694)
Discontinued operations (Note 12(b))	-	(1,566)	(1,566)	-	(2,293)	(2,293)
	(113,592)	29,901	(83,691)	(106,610)	37,623	(68,987)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**13. DEFERRED TAXATION (CONTINUED)**

	<b>2016</b>			<b>2015</b>		
	<b>Life fund</b>	<b>General and Shareholders' funds</b>	<b>Total</b>	<b>Life fund</b>	<b>General and Shareholders' funds</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	(106,610)	37,623	(68,987)	(89,532)	11,796	(77,736)
Credited/(charged) to statement of profit or loss (Note 28)						
- property, plant and equipment	308	282	590	(1,335)	(682)	(2,017)
- investments and loans	4,803	(3,721)	1,082	1,282	(198)	1,084
- investment properties	(1,378)	1,065	(313)	(3,496)	(311)	(3,807)
- others	-	-	-	28	-	28
- Unallocated surplus of non-DPF	(9,259)	-	(9,259)	(15,269)	-	(15,269)
- temporary funding (from)/to life participating fund	-	(6,248)	(6,248)	-	27,413	27,413
	<u>(5,526)</u>	<u>(8,622)</u>	<u>(14,148)</u>	<u>(18,790)</u>	<u>26,222</u>	<u>7,432</u>
Credited/(charged) to comprehensive income:						
- asset revaluation reserve	-	-	-	-	78	78
- available-for-sale reserve	(1,456)	900	(556)	1,712	(473)	1,239
	<u>(1,456)</u>	<u>900</u>	<u>(556)</u>	<u>1,712</u>	<u>(395)</u>	<u>1,317</u>
At 31 December	<u>(113,592)</u>	<u>29,901</u>	<u>(83,691)</u>	<u>(106,610)</u>	<u>37,623</u>	<u>(68,987)</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**13. DEFERRED TAXATION (CONTINUED)**

	<b>2016</b>			<b>2015</b>		
	<b>Life fund</b>	<b>General and Shareholders' funds</b>	<b>Total</b>	<b>Life fund</b>	<b>General and Shareholders' funds</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Comprising:						
Credited/(charged) to statement of profit or loss (Note 28)						
- continuing operations	(5,526)	(8,920)	(14,446)	(18,790)	26,907	8,117
- discontinued operations	-	298	298	-	(685)	(685)
	<u>(5,526)</u>	<u>(8,622)</u>	<u>(14,148)</u>	<u>(18,790)</u>	<u>26,222</u>	<u>7,432</u>
Credited/(charged) to comprehensive income						
- continuing operations	(1,456)	471	(985)	1,712	(528)	1,184
- discontinued operations	-	429	429	-	133	133
	<u>(1,456)</u>	<u>900</u>	<u>(556)</u>	<u>1,712</u>	<u>(395)</u>	<u>1,317</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**13. DEFERRED TAXATION (CONTINUED)**

	<b>31.12.2016</b>			<b>31.12.2015</b>		
	<b>Life fund</b>	<b>General and Share-holders' funds</b>	<b>Total</b>	<b>Life fund</b>	<b>General and Share-holders' funds</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Subject to income tax:						
Deferred tax assets (before offsetting)						
- investments and loans	1,288	3,815	5,103	1,247	7,536	8,783
- investment properties	2,758	9,418	12,176	4,136	8,338	12,474
- available-for-sale reserve	-	16	16	-	-	-
- others	28	-	28	28	-	28
- temporary funding to life participating fund	-	21,165	21,165	-	27,413	27,413
	4,074	34,414	38,488	5,411	43,287	48,698
Offsetting	(4,074)	(2,947)	(7,021)	(5,411)	(3,371)	(8,782)
Deferred tax assets after offsetting	-	31,467	31,467	-	39,916	39,916
Deferred tax liabilities (before offsetting)						
- asset revaluation reserve	(1,644)	(1,890)	(3,534)	(1,644)	(1,890)	(3,534)
- available-for-sale reserve	(5,503)	(437)	(5,940)	(4,047)	(1,321)	(5,368)
- property, plant and equipment	(1,027)	(1,314)	(2,341)	(1,335)	(1,596)	(2,931)
- investments and loans	(9,237)	-	(9,237)	(13,999)	-	(13,999)
- investment properties	-	(872)	(872)	-	(857)	(857)
- unallocated surplus of non-DPF	(100,255)	-	(100,255)	(90,996)	-	(90,996)
	(117,666)	(4,513)	(122,179)	(112,021)	(5,664)	(117,685)
Offsetting	4,074	2,947	7,021	5,411	3,371	8,782
Deferred tax liabilities after offsetting	(113,592)	(1,566)	(115,158)	(106,610)	(2,293)	(108,903)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**14. SHARE CAPITAL**

	<b>31.12.2016</b>		<b>31.12.2015</b>	
	<b>Number of shares</b>	<b>Nominal value</b>	<b>Number of shares</b>	<b>Nominal value</b>
	<b>'000</b>	<b>RM'000</b>	<b>'000</b>	<b>RM'000</b>
<u>Authorised</u>				
Ordinary shares of RM1 each:				
- At beginning/end of the financial year	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
<u>Issued and fully paid</u>				
Ordinary shares of RM1 each:				
- At beginning/end of the financial year	<u>579,000</u>	<u>579,000</u>	<u>579,000</u>	<u>579,000</u>

**15. RESERVES**

**(a) Retained earnings**

In accordance with Section 83 of the FSA, the unallocated surplus is only available for distribution to the shareholders upon approval/recommendation by the Appointed Actuary.

Pursuant to the single tier system, any dividends distributed by the Company from the distributable retained earnings will be exempted from tax in the hand of shareholders. The Company shall not be required to deduct tax on dividend paid, credited or distributed to shareholders.

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

**(b) Other reserves**

Other reserves consist of available-for-sale reserve and asset revaluation reserve.

The available-for-sale reserve of the Company represents the fair value gains or losses of the available-for-sale financial assets, net of deferred tax, of the life non-participating, general and shareholders' funds.

The assets revaluation reserve represents the fair value difference arising upon the reclassification of self-occupied properties which are carried at cost less accumulated depreciation and accumulated impairment loss, to investment properties.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16. INSURANCE CONTRACT LIABILITIES**

	Note	31.12.2016			31.12.2015		
		Gross	Re- insurance	Net	Gross	Re- insurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Life insurance	16(a)	4,461,662	(29,208)	4,432,454	4,672,409	(27,539)	4,644,870
General insurance	16(b)						
- continuing operations		-	-	-	795,805	(142,615)	653,190
- discontinued operations	12(b)	789,987	(147,836)	642,151	-	-	-
		<u>5,251,649</u>	<u>(177,044)</u>	<u>5,074,605</u>	<u>5,468,214</u>	<u>(170,154)</u>	<u>5,298,060</u>
		31.12.2016			31.12.2015		
		Gross	Re- insurance	Net	Gross	Re- insurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>(a) Life insurance:</b>							
Liability for future policyholders' benefits		3,455,039	(23,497)	3,431,542	3,622,009	(23,167)	3,598,842
Net asset value attributable to unitholders		913,765	-	913,765	965,185	-	965,185
Actuarial liabilities		4,368,804	(23,497)	4,345,307	4,587,194	(23,167)	4,564,027
Claims liabilities		80,585	(5,711)	74,874	63,598	(4,372)	59,226
		<u>4,449,389</u>	<u>(29,208)</u>	<u>4,420,181</u>	<u>4,650,792</u>	<u>(27,539)</u>	<u>4,623,253</u>
Life Participating Fund:							
- Unallocated deficit		(71,475)	-	(71,475)	(46,479)	-	(46,479)
- Available-for-sale reserve		62,758	-	62,758	47,106	-	47,106
- Asset revaluation reserve		20,990	-	20,990	20,990	-	20,990
		<u>4,461,662</u>	<u>(29,208)</u>	<u>4,432,454</u>	<u>4,672,409</u>	<u>(27,539)</u>	<u>4,644,870</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(a) Life insurance (continued)**

	<b>Gross</b>			<b>Reinsurance</b>			
	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Actuarial liabilities</u>							
At 1 January 2015	3,037,981	1,607,725	4,645,706	(5,011)	(17,132)	(22,143)	4,623,563
Benefit and claims experience variation	(146,093)	19,664	(126,429)	(1,454)	430	(1,024)	(127,453)
Change due to valuation basis:							
Model enhancement	7,976	(4,253)	3,723	-	-	-	3,723
Yield movement	-	(20,768)	(20,768)	-	-	-	(20,768)
Assumption changes	11,912	(4,169)	7,743	-	-	-	7,743
Net asset value attributable to unitholders	-	77,219	77,219	-	-	-	77,219
At 31 December 2015	2,911,776	1,675,418	4,587,194	(6,465)	(16,702)	(23,167)	4,564,027
Benefit and claims experience variation	(171,676)	12,228	(159,448)	(765)	435	(330)	(159,778)
Change due to valuation basis:							
Model enhancement	(14,361)	(286)	(14,647)	-	-	-	(14,647)
Yield movement	-	(6,402)	(6,402)	-	-	-	(6,402)
Assumption changes	12,683	844	13,527	-	-	-	13,527
Net asset value attributable to unitholders	-	(51,420)	(51,420)	-	-	-	(51,420)
At 31 December 2016	<u>2,738,422</u>	<u>1,630,382</u>	<u>4,368,804</u>	<u>(7,230)</u>	<u>(16,267)</u>	<u>(23,497)</u>	<u>4,345,307</u>

**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(a) Life insurance (continued)**

	<b>Gross</b>			<b>Reinsurance</b>			
	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Claims liabilities</u>							
At 1 January 2015	30,760	26,392	57,152	(3,341)	(8,935)	(12,276)	44,876
Movement in claim provisions	518	5,928	6,446	2,490	5,414	7,904	14,350
At 31 December 2015	31,278	32,320	63,598	(851)	(3,521)	(4,372)	59,226
Movement in claim provisions	15,090	1,897	16,987	21	(1,360)	(1,339)	15,648
At 31 December 2016	46,368	34,217	80,585	(830)	(4,881)	(5,711)	74,874

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(a) Life insurance (continued)**

	<b>2016</b>			<b>2015</b>		
	<b>With DPF</b>	<b>Without DPF*</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF*</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Unallocated surplus/(deficit)</u>						
At 1 January	(46,479)	343,569	297,090	(59,695)	286,877	227,182
Premium received	187,545	522,053	709,598	201,685	530,836	732,521
Payment due to death, surrenders, benefits and claims	(547,810)	(397,277)	(945,087)	(552,500)	(279,001)	(831,501)
Net investment income	240,125	76,411	316,536	180,153	90,492	270,645
Management expenses and commissions	(25,869)	(183,181)	(209,050)	(44,373)	(184,944)	(229,317)
Change in life insurance fund actuarial liabilities	158,264	43,139	201,403	125,687	(73,621)	52,066
Change in claims liabilities	787	(1,794)	(1,007)	(1,037)	(5,845)	(6,882)
Tax expense	(12,006)	(13,972)	(25,978)	(10,618)	(21,225)	(31,843)
(Refund to)/temporary funding from Shareholders' Fund	(26,032)	-	(26,032)	114,219	-	114,219
Net surplus/(deficit) for the financial year	(24,996)	45,379	20,383	13,216	56,692	69,908
At 31 December	(71,475)	388,948	317,473	(46,479)	343,569	297,090

\*The unallocated surplus of the Life Non-Participating fund is reported under non-distributable retained earnings in the statement of changes in equity.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(a) Life insurance (continued)**

Reserves movement for the Life Participating fund is as follows:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<u>Available-for-sale reserve</u>		
At 1 January	47,106	58,289
Fair value change on available-for-sale financial assets, net of tax:		
- Gross fair value change	16,409	(11,962)
- Deferred tax	<u>(757)</u>	<u>779</u>
	<u>15,652</u>	<u>(11,183)</u>
At 31 December	<u><u>62,758</u></u>	<u><u>47,106</u></u>
	<b>31.12.2016</b> <b>RM'000</b>	<b>31.12.2015</b> <b>RM'000</b>
Asset revaluation reserve	<u><u>20,990</u></u>	<u><u>20,990</u></u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(b) General insurance**

The General insurance contract liabilities and movements are further analysed as follows:

	< ----- Discontinued operations ----- >			< ----- Continuing operations ----- >		
	<b>31.12.2016</b>			<b>31.12.2015</b>		
	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Provision for claims	330,428	(70,303)	260,125	330,313	(61,268)	269,045
Provision for incurred but not reported claims ("IBNR")	166,243	(19,586)	146,657	156,631	(11,720)	144,911
Claim liabilities	496,671	(89,889)	406,782	486,944	(72,988)	413,956
Premium liabilities	293,316	(57,947)	235,369	308,861	(69,627)	239,234
	<u>789,987</u>	<u>(147,836)</u>	<u>642,151</u>	<u>795,805</u>	<u>(142,615)</u>	<u>653,190</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**16. INSURANCE CONTRACT LIABILITIES (CONTINUED)**

**(b) General insurance (continued)**

The General insurance contract liabilities and movements are further analysed as follows:

	< ----- Discontinued operations ----- >			< ----- Continuing operations ----- >		
	<b>2016</b>			<b>2015</b>		
	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Claims liabilities</u>						
At 1 January	486,944	(72,988)	413,956	446,621	(66,580)	380,041
Claims incurred in the current accident year	256,778	(28,152)	228,626	245,678	(18,501)	227,177
Other movements in claims incurred in prior accident years	44,646	(3,244)	41,402	25,398	(6,489)	18,909
Claims paid during the financial year (Note 25)	(301,309)	22,361	(278,948)	(272,599)	24,540	(248,059)
Movement in IBNR reserves	9,612	(7,866)	1,746	41,846	(5,958)	35,888
At 31 December	<u>496,671</u>	<u>(89,889)</u>	<u>406,782</u>	<u>486,944</u>	<u>(72,988)</u>	<u>413,956</u>
<u>Premium liabilities</u>						
At 1 January	308,861	(69,627)	239,234	311,860	(63,778)	248,082
Premium written in the financial year (Note 20)	651,036	(128,054)	522,982	639,540	(120,438)	519,102
Premium earned during the financial year	<u>(666,581)</u>	<u>139,734</u>	<u>(526,847)</u>	<u>(642,539)</u>	<u>114,589</u>	<u>(527,950)</u>
At 31 December	<u>293,316</u>	<u>(57,947)</u>	<u>235,369</u>	<u>308,861</u>	<u>(69,627)</u>	<u>239,234</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**17. OTHER LIABILITIES**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Investment creditors	1,258	16,458
Cash collaterals held for performance bond underwritten	-	34,438
Unclaimed monies	1,422	4,634
Rental deposits	1,380	2,463
Accrual for unutilised staff leave	862	1,693
Accrued expenses	13,968	58,775
Other payables	58,368	62,906
	<u>77,258</u>	<u>181,367</u>
Repayable within 12 months	76,400	172,313
Repayable after 12 months	858	9,054
	<u>77,258</u>	<u>181,367</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

**18. INSURANCE PAYABLES**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Due to agents and intermediaries	39,894	49,361
Due to reinsurers and cedants	7,314	58,992
Cash payments/cash dividends payable to life policyholders	1,533,805	1,396,967
Accrued interest on cash payments/cash dividends payable to life policyholders	89,564	80,923
Reinsurer's deposits withheld	-	34,693
Premium deposits	13,391	12,444
	<u>1,683,968</u>	<u>1,633,380</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position. All amounts are payable within one year.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**19. PROVISION FOR LIFE AGENTS' RETIREMENT BENEFITS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	629	639
Additional provision	33	74
Utilisation of provision	(108)	(84)
At 31 December	<u>554</u>	<u>629</u>
Repayable within 12 months	84	104
Repayable after 12 months	<u>470</u>	<u>525</u>
	<u>554</u>	<u>629</u>

The amount recognised in the Company's statement of financial position is analysed as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Present value of funded obligations	26,746	26,242
Fair value of plan assets	(26,746)	(26,242)
Status of funded plan	-	-
Present value of unfunded obligations	<u>554</u>	<u>629</u>
Liability in the statement of financial position	<u>554</u>	<u>629</u>

The expense recognised in the Life Insurance revenue account under commission and agency expenses is analysed as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Current service cost	16	52
Interest cost	<u>17</u>	<u>22</u>
	<u>33</u>	<u>74</u>

The actual return on plan asset was RM284,000 (2015: RM1,359,000).

The present value of funded obligations is always equal to the fair value of plan assets of the funded retirement benefit scheme as the actual payment to agents is based on actual fair value of plan assets at the time of retirement. The Company assumes that all agents who have served the Company for more than 10 years would continue to serve the Company until their age of retirement and will be eligible for the retirement benefit.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**20. NET EARNED PREMIUMS**

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>2016</b>			
(a) Gross premiums			
- Insurance contracts	770,689	651,036	1,421,725
- Change in premium liabilities	-	15,545	15,545
	<u>770,689</u>	<u>666,581</u>	<u>1,437,270</u>
(b) Premium ceded			
- Insurance contracts	(61,091)	(128,054)	(189,145)
- Change in premium liabilities	-	(11,680)	(11,680)
	<u>(61,091)</u>	<u>(139,734)</u>	<u>(200,825)</u>
Net earned premiums	<u>709,598</u>	<u>526,847</u>	<u>1,236,445</u>
<b>2015</b>			
(a) Gross premiums			
- Insurance contracts	794,511	639,540	1,434,051
- Change in premium liabilities	-	2,999	2,999
	<u>794,511</u>	<u>642,539</u>	<u>1,437,050</u>
(b) Premium ceded			
- Insurance contracts	(61,990)	(120,438)	(182,428)
- Change in premium liabilities	-	5,849	5,849
	<u>(61,990)</u>	<u>(114,589)</u>	<u>(176,579)</u>
Net earned premiums	<u>732,521</u>	<u>527,950</u>	<u>1,260,471</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**21. INVESTMENT INCOME**

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
<b>2016</b>			
<b>FVTPL financial assets</b>			
Interest/profit income:			
- Malaysian Government Securities/ Government Investment Issues	754	-	754
- corporate debt securities unquoted in Malaysia	10,885	-	10,885
Dividend/distribution income:			
- equity securities quoted in Malaysia	32,888	-	32,888
- unit trusts quoted in Malaysia	4,328	-	4,328
- unit trusts quoted outside Malaysia	860	-	860
Accretion of discounts/(amortisation of premiums):			
- Malaysian Government Securities/ Government Investment Issues	23	-	23
- corporate debt securities unquoted in Malaysia	(715)	-	(715)
	<u>49,023</u>	<u>-</u>	<u>49,023</u>
<b>AFS financial assets</b>			
Interest/profit income:			
- Malaysian Government Securities/ Government Investment Issues	37,236	5,279	42,515
- corporate debt securities unquoted in Malaysia	178,422	13,952	192,374
Dividend/distribution income:			
- equity securities quoted in Malaysia	5,998	1,702	7,700
- equity securities unquoted in Malaysia	299	-	299
- unit trusts	209	9,377	9,586
Accretion of discounts/(amortisation of premiums):			
- Malaysian Government Securities/ Government Investment Issues	101	(204)	(103)
- corporate debt securities unquoted in Malaysia	9,201	(623)	8,578
	<u>231,466</u>	<u>29,483</u>	<u>260,949</u>
<b>Loans and receivables</b>			
Interest/profit income:			
- policy loans	17,399	-	17,399
- mortgage loans	17,076	11	17,087
- other secured and unsecured loans	1	1	2
- fixed and call deposits	7,540	743	8,283
- others	17,242	-	17,242
	<u>59,258</u>	<u>755</u>	<u>60,013</u>
<b>Properties</b>			
Gross rental income	16,083	314	16,397
Less: Rates and maintenance	(8,369)	(328)	(8,697)
	<u>7,714</u>	<u>(14)</u>	<u>7,700</u>
	<u>347,461</u>	<u>30,224</u>	<u>377,685</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**21. INVESTMENT INCOME (CONTINUED)**

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
<b>2015</b>			
<b>FVTPL financial assets</b>			
Interest/profit income:			
- Malaysian Government Securities/ Government Investment Issues	936	-	936
- corporate debt securities unquoted in Malaysia	10,615	-	10,615
Dividend/distribution income:			
- equity securities quoted in Malaysia	30,425	-	30,425
- unit trusts quoted in Malaysia	3,656	-	3,656
Accretion of discounts/(amortisation of premiums):			
- Malaysian Government Securities/ Government Investment Issues	(1)	-	(1)
- corporate debt securities unquoted in Malaysia	(645)	-	(645)
	<u>44,986</u>	<u>-</u>	<u>44,986</u>
<b>AFS financial assets</b>			
Interest/profit income:			
- Malaysian Government Securities/ Government Investment Issues	32,162	4,940	37,102
- corporate debt securities unquoted in Malaysia	170,982	13,941	184,923
Dividend/distribution income:			
- equity securities quoted in Malaysia	5,135	1,500	6,635
- equity securities unquoted in Malaysia	299	-	299
- unit trusts	194	8,057	8,251
Accretion of discounts/(amortisation of premiums):			
- Malaysian Government Securities/ Government Investment Issues	(357)	(292)	(649)
- corporate debt securities unquoted in Malaysia	13,887	(553)	13,334
	<u>222,302</u>	<u>27,593</u>	<u>249,895</u>
<b>Loans and receivables</b>			
Interest/profit income:			
- policy loans	16,149	-	16,149
- mortgage loans	786	14	800
- other secured and unsecured loans	3	1	4
- fixed and call deposits	8,571	1,021	9,592
	<u>25,509</u>	<u>1,036</u>	<u>26,545</u>
<b>Properties</b>			
Gross rental income	23,210	542	23,752
Less: Rates and maintenance	(9,218)	(218)	(9,436)
	<u>13,992</u>	<u>324</u>	<u>14,316</u>
	<u>306,789</u>	<u>28,953</u>	<u>335,742</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**22. REALISED GAINS AND LOSSES**

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>2016</b>			
<b>FVTPL financial assets</b>			
Realised gains:			
- Malaysian Government Securities/ Government Investment Issues	42	-	42
- corporate debt securities unquoted in Malaysia	662	-	662
- equity securities quoted in Malaysia	9,760	26	9,786
- unit trusts quoted in Malaysia	2,157	-	2,157
- unit trusts quoted outside Malaysia	406	-	406
Realised losses:			
- Malaysian Government Securities/ Government Investment Issues	(28)	-	(28)
- corporate debt securities unquoted in Malaysia	(49)	-	(49)
- equity securities quoted in Malaysia	(16,465)	-	(16,465)
- equity securities quoted outside Malaysia	(273)	-	(273)
- unit trusts quoted in Malaysia	(9)	-	(9)
- unit trusts quoted outside Malaysia	(1,698)	-	(1,698)
	<u>(5,495)</u>	<u>26</u>	<u>(5,469)</u>
<b>AFS financial assets</b>			
Realised gains:			
- Malaysian Government Securities/ Government Investment Issues	125	-	125
- corporate debt securities unquoted in Malaysia	25,681	319	26,000
- equity securities quoted in Malaysia	4,275	1,204	5,479
- unit trusts quoted in Malaysia	394	114	508
Realised losses:			
- Malaysian Government Securities/ Government Investment Issues	(594)	-	(594)
- corporate debt securities unquoted in Malaysia	(3,095)	(86)	(3,181)
- equity securities quoted in Malaysia	(6,114)	(1,865)	(7,979)
- equity securities quoted outside Malaysia	(62)	(18)	(80)
	<u>20,610</u>	<u>(332)</u>	<u>20,278</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**22. REALISED GAINS AND LOSSES (CONTINUED)**

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
<b>2016</b>			
<b>Loans and receivables</b>			
Realised losses	(67,586)	-	(67,586)
<b>Non-financial assets</b>			
Realised gains:			
- investment properties	2,549	-	2,549
- property, plant and equipment	4	-	4
Realised losses:			
- investment properties	-	(3)	(3)
	<u>2,553</u>	<u>(3)</u>	<u>2,550</u>
	<u>(49,918)</u>	<u>(309)</u>	<u>(50,227)</u>
<b>2015</b>			
<b>FVTPL financial assets</b>			
Realised gains:			
- Malaysian Government Securities/ Government Investment Issues	143	-	143
- corporate debt securities unquoted in Malaysia	298	-	298
- equity securities quoted in Malaysia	33,613	24	33,637
- unit trusts quoted in Malaysia	95	-	95
Realised losses:			
- Malaysian Government Securities/ Government Investment Issues	(214)	-	(214)
- corporate debt securities unquoted in Malaysia	(38)	-	(38)
- equity securities quoted in Malaysia	(31,340)	-	(31,340)
- unit trusts quoted in Malaysia	(418)	-	(418)
	<u>2,139</u>	<u>24</u>	<u>2,163</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**22. REALISED GAINS AND LOSSES (CONTINUED)**

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
<b>2015</b>			
<b>AFS financial assets</b>			
Realised gains:			
- Malaysian Government Securities/ Government Investment Issues	408	112	520
- corporate debt securities unquoted in Malaysia	16,907	610	17,517
- equity securities quoted in Malaysia	6,401	1,676	8,077
- unit trusts quoted in Malaysia	765	212	977
Realised losses:			
- Malaysian Government Securities/ Government Investment Issues	(677)	-	(677)
- corporate debt securities unquoted in Malaysia	(4,040)	(78)	(4,118)
- equity securities quoted in Malaysia	(9,364)	(1,992)	(11,356)
- unit trusts quoted in Malaysia	(4)	(1)	(5)
	<u>10,396</u>	<u>539</u>	<u>10,935</u>
<b>Loans and receivables</b>			
Realised losses	(8)	-	(8)
<b>Non-financial assets</b>			
Realised gains:			
- investment properties	918	-	918
- property, plant and equipment	32	-	32
Realised losses:			
- investment properties	(14)	-	(14)
- property, plant and equipment	-	(16)	(16)
	<u>936</u>	<u>(16)</u>	<u>920</u>
	<u>13,463</u>	<u>547</u>	<u>14,010</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**23. FAIR VALUE GAINS AND LOSSES**

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
<b>2016</b>			
<b>FVTPL financial assets:</b>			
Net fair value gains/(losses):			
- Malaysian Government Securities/ Government Investment Issues	88	-	88
- corporate debt securities unquoted in Malaysia	2,059	-	2,059
- equity securities quoted in Malaysia	(22,077)	-	(22,077)
- unit trusts quoted in Malaysia	9,289	-	9,289
- unit trusts unquoted outside Malaysia	427	-	427
	<u>(10,214)</u>	<u>-</u>	<u>(10,214)</u>
Net fair value (losses)/gains :			
- investment properties (Note 6)	(15,019)	32	(14,987)
Loans and receivables:			
- write-back of allowance of impairment (Note 8)	81,779	-	81,779
	<u>56,546</u>	<u>32</u>	<u>56,578</u>
<b>2015</b>			
<b>FVTPL financial assets:</b>			
Net fair value gains/(losses):			
- Malaysian Government Securities/ Government Investment Issues	174	-	174
- corporate debt securities unquoted in Malaysia	(777)	-	(777)
- equity securities quoted in Malaysia	(16,081)	-	(16,081)
- unit trusts quoted in Malaysia	454	-	454
- unit trusts unquoted outside Malaysia	2,840	-	2,840
	<u>(13,390)</u>	<u>-</u>	<u>(13,390)</u>
Net fair value (losses)/gains :			
- investment properties (Note 6)	(218)	-	(218)
Impairment losses:			
- AFS financial assets (Note 7)	(12)	-	(12)
Loans and receivables:			
- write-back of allowance of impairment (Note 8)	2,008	-	2,008
	<u>(11,612)</u>	<u>-</u>	<u>(11,612)</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**24. FEES AND COMMISSION**

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>(a) Fee and commission income</b>			
<b>2016</b>			
Policy administration and investment management services	887	-	887
Surrender charges and other contract fees	54	-	54
Reinsurance commission income	5,588	16,179	21,767
	<u>6,529</u>	<u>16,179</u>	<u>22,708</u>
<b>2015</b>			
Policy administration and investment management services	377	-	377
Surrender charges and other contract fees	48	-	48
Reinsurance commission income	4,005	14,818	18,823
	<u>4,430</u>	<u>14,818</u>	<u>19,248</u>
<b>(b) Fee and commission expenses</b>			
<b>2016</b>			
Gross commission expenses	<u>(110,215)</u>	<u>(75,002)</u>	<u>(185,217)</u>
<b>2015</b>			
Gross commission expenses	<u>(108,451)</u>	<u>(76,259)</u>	<u>(184,710)</u>

**25. NET BENEFITS AND CLAIMS**

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>2016</b>			
(a) Gross benefits and claims paid	<u>(992,468)</u>	<u>(301,309)</u>	<u>(1,293,777)</u>
(b) Claims ceded to reinsurers	<u>47,381</u>	<u>22,361</u>	<u>69,742</u>
(c) Gross change in contract liabilities	<u>226,399</u>	<u>(9,727)</u>	<u>216,672</u>
(d) Change in contract liabilities ceded to reinsurers	<u>(1,007)</u>	<u>16,901</u>	<u>15,894</u>
<b>2015</b>			
(a) Gross benefits and claims paid	<u>(879,922)</u>	<u>(272,599)</u>	<u>(1,152,521)</u>
(b) Claims ceded to reinsurers	<u>48,421</u>	<u>24,540</u>	<u>72,961</u>
(c) Gross change in contract liabilities	<u>38,850</u>	<u>(40,323)</u>	<u>(1,473)</u>
(d) Change in contract liabilities ceded to reinsurers	<u>(6,882)</u>	<u>6,408</u>	<u>(474)</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**26. MANAGEMENT EXPENSES**

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>2016</b>			
Staff costs (including Executive Director):			
- salaries and bonus	56,853	65,154	122,007
- staff and retirement benefits contributions	16,116	15,952	32,068
	<u>72,969</u>	<u>81,106</u>	<u>154,075</u>
Directors' remuneration	450	450	900
Auditors' remuneration:			
- statutory audit	731	244	975
- others	5	5	10
Office rental	6,842	6,287	13,129
Equipment rental	663	199	862
Depreciation of property, plant and equipment (Note 4)	4,463	1,252	5,715
Amortisation of intangible assets (Note 5)	2,205	1,440	3,645
Allowance for impairment of insurance receivables (Note 10)	437	674	1,111
Training expenses	1,859	615	2,474
Repairs and maintenance expenses	2,171	2,123	4,294
Information technology expenses	9,701	9,367	19,068
Advertising, promotional and entertainment expenses	2,624	9,495	12,119
Motor club expenses	-	1,685	1,685
Motor vehicle and travelling expenses	2,000	3,842	5,842
Printing and stationery expenses	1,134	12,731	13,865
Postage, courier and telephone charges	2,952	1,087	4,039
Management fees	5,904	812	6,716
Other expenses	16,813	8,560	25,373
	<u>60,954</u>	<u>60,868</u>	<u>121,822</u>
	<u>133,923</u>	<u>141,974</u>	<u>275,897</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**26. MANAGEMENT EXPENSES (CONTINUED)**

Included in management expenses were emoluments received by the Directors of the Company during the financial year:

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>2016</b>			
Executive Director:			
- other emoluments*	2,612	871	3,483
- benefits-in-kind	164	55	219
	<u>2,776</u>	<u>926</u>	<u>3,702</u>
Non-Executive Directors:			
- fees	360	360	720
- allowances	90	90	180
	<u>450</u>	<u>450</u>	<u>900</u>
<b>Total</b>	<u><u>3,226</u></u>	<u><u>1,376</u></u>	<u><u>4,602</u></u>
Represented by:			
Directors' fees	360	360	720
Directors' emoluments	2,702	961	3,663
Benefits-in-kind	164	55	219
<b>Total</b>	<u><u>3,226</u></u>	<u><u>1,376</u></u>	<u><u>4,602</u></u>

\*included are other emolument benefits payable to Zurich Services (Hong Kong) Limited.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**26. MANAGEMENT EXPENSES (CONTINUED)**

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>2015</b>			
Staff costs (including Executive Director):			
- salaries and bonus	54,686	63,609	118,295
- staff and retirement benefits contributions	10,124	11,279	21,403
	<u>64,810</u>	<u>74,888</u>	<u>139,698</u>
Directors' remuneration	485	485	970
Auditors' remuneration:			
- statutory audit	762	235	997
- others	5	5	10
Office rental	6,950	6,735	13,685
Equipment rental	872	335	1,207
Depreciation of property, plant and equipment (Note 4)	3,389	740	4,129
Amortisation of intangible assets (Note 5)	2,196	1,530	3,726
Allowance for impairment of insurance receivables (Note 10)	730	1,064	1,794
Training expenses	2,183	469	2,652
Repairs and maintenance expenses	2,911	3,356	6,267
Information technology expenses	11,258	10,540	21,798
Advertising, promotional and entertainment expenses	3,824	12,356	16,180
Motor club expenses	-	2,315	2,315
Motor vehicle and travelling expenses	1,992	3,364	5,356
Printing and stationery expenses	1,365	8,755	10,120
Postage, courier and telephone charges	2,687	1,203	3,890
Management fees	6,409	1,241	7,650
Other expenses	<u>22,550</u>	<u>12,204</u>	<u>34,754</u>
	<u>70,568</u>	<u>66,932</u>	<u>137,500</u>
	<u>135,378</u>	<u>141,820</u>	<u>277,198</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**26. MANAGEMENT EXPENSES (CONTINUED)**

Included in management expenses were emoluments received by the Directors of the Company during the financial year:

	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
<b>2015</b>			
Executive Director:			
- other emoluments*	1,969	656	2,625
- benefits-in-kind	164	55	219
	<u>2,133</u>	<u>711</u>	<u>2,844</u>
Non-Executive Directors:			
- fees	410	409	819
- allowances	75	76	151
	<u>485</u>	<u>485</u>	<u>970</u>
<b>Total</b>	<b><u>2,618</u></b>	<b><u>1,196</u></b>	<b><u>3,814</u></b>
Represented by:			
Directors' fees	410	409	819
Directors' emoluments	2,044	732	2,776
Benefits-in-kind	164	55	219
<b>Total</b>	<b><u>2,618</u></b>	<b><u>1,196</u></b>	<b><u>3,814</u></b>

\*included are other emolument benefits payable to Zurich Services (Hong Kong) Limited.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**26. MANAGEMENT EXPENSES (CONTINUED)**

The number of Executive and Non-Executive Directors whose total remuneration received or receivable during the financial year are analysed by the following bands:

	<b>Number of Directors</b>	
	<b>2016</b>	<b>2015</b>
<u>Executive Directors:</u>		
RM2,000,001 – RM3,000,000	-	1
RM3,000,001 – RM4,000,000	1	-
<u>Non-Executive Directors:</u>		
RM200,001 – RM300,000	4	3
RM300,001 – RM400,000	-	1

Included in the remuneration of the Executive Director is the remuneration attributable to the Chief Executive Officer (“CEO”) of the Company during the financial year amounting to RM3,700,000 (2015: RM2,843,000).

The estimated monetary value of benefits provided to the CEO during the financial year by way of usage of the Company’s assets was RM31,000 (2015: RM31,000).

The Directors of the Company in office during the financial year were as follows:

Tan Sri Ahmad bin Mohd Don  
Philip Wallace Smith  
Steven Choy Khai Choon  
Datin Joan Hoi Lai Ping  
Hasnah binti Omar

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**27. OTHER OPERATING INCOME/(EXPENSES) – NET**

	Continuing operations RM'000	Discontinued operations RM'000	Total RM'000
<b>2016</b>			
Finance costs	(11)	-	(11)
Realised foreign exchange loss	(430)	(9)	(439)
Unrealised foreign exchange gains	4,431	-	4,431
Other miscellaneous income	18,417	3,657	22,074
	<u>22,407</u>	<u>3,648</u>	<u>26,055</u>
<b>2015</b>			
Finance costs	(17)	-	(17)
Other miscellaneous (expenses)/ income	(918)	6,288	5,370
	<u>(935)</u>	<u>6,288</u>	<u>5,353</u>

The unsecured bank overdraft facilities of the Company have limits of RM1.5 million (2015: RM4.0 million). During the financial year, the interest rate charged was 8.10% (2015: 8.35%) per annum. There was no overdraft facilities utilised at the date of the statement of financial position.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**28. TAXATION**

	<b>Continuing operations</b>		<b>Dis-continued operations</b>	
	<b>Life fund</b>	<b>Share-holders' fund</b>	<b>General fund</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	
<b>2016</b>				
Current tax	20,452	6,489	22,569	49,510
Deferred tax (Note 13)	5,526	8,920	(298 )	14,148
Tax expense	<u>25,978</u>	<u>15,409</u>	<u>22,271</u>	<u>63,658</u>
Current tax				
Current financial year	22,470	6,546	21,149	50,165
Under/(over) provision in prior financial years	<u>(2,018)</u>	<u>(57)</u>	<u>1,420</u>	<u>(655)</u>
	20,452	6,489	22,569	49,510
Deferred tax				
Origination and reversal of temporary differences	<u>5,526</u>	<u>8,920</u>	<u>(298)</u>	<u>14,148</u>
	<u>25,978</u>	<u>15,409</u>	<u>22,271</u>	<u>63,658</u>
<b>2015</b>				
Current tax	13,053	7,164	15,769	35,986
Deferred tax (Note 13)	<u>18,790</u>	<u>(26,907)</u>	<u>685</u>	<u>(7,432)</u>
Tax expense	<u>31,843</u>	<u>(19,743)</u>	<u>16,454</u>	<u>28,554</u>
Current tax				
Current financial year	17,135	7,664	16,581	41,380
Over provision in prior financial years	<u>(4,082)</u>	<u>(500)</u>	<u>(812)</u>	<u>(5,394)</u>
	13,053	7,164	15,769	35,986
Deferred tax				
Origination and reversal of temporary differences	<u>18,790</u>	<u>(26,907)</u>	<u>685</u>	<u>(7,432)</u>
	<u>31,843</u>	<u>(19,743)</u>	<u>16,454</u>	<u>28,554</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**28. TAXATION (CONTINUED)**

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

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit before taxation:		
- continuing operations	128,790	1,294
- discontinued operations	87,871	78,503
	<u>216,661</u>	<u>79,797</u>
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	51,998	19,949
Deduction of cash contribution to MMIP during the financial year*	-	(1,753)
Effect due to different tax rates	(11,839)	(8,300)
Income not subject to tax	(3,585)	(3,271)
Expenses not deductible for tax purposes	16,943	16,104
Tax impact on investment income attributable to policyholders and unitholders	10,796	8,950
	<u>64,313</u>	<u>31,679</u>
Over-provision of tax in prior financial years	(655)	(3,125)
Tax expense	<u>63,658</u>	<u>28,554</u>

\*The deduction of cash contribution to MMIP during the financial year RM Nil (2015: RM7,012,000) relates to the double tax deduction allowed on MMIP cash contribution made, pursuant to the Gazette Order issued by the Attorney General Chambers of Malaysia on 28 November 2012. The double tax deduction is available up to year of assessment 2015.

The income tax for the Shareholders' and General funds are calculated based on the corporate tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year. The income tax for the Life fund is calculated based on the tax rate of 8% (2015: 8%) of the assessable investment income net of allowable deductions for the financial year.

**29. DIVIDENDS**

There were no dividends paid in respect of the previous financial year, and the Directors do not recommend the payment of any dividend for the current financial year.

**30. EARNINGS PER SHARE**

The basic earnings per ordinary share has been calculated by dividing the Company's net profit for the financial year of RM153,004,000 (2015: RM51,243,000) over the weighted average number of shares of the Company in issue of 579,000,000 (2015: 579,000,000) shares.

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of the statement of financial position.

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



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**31. CASH FLOWS**

	<b>Note</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
<b>Net profit/(loss) for the financial year</b>			
Continuing operations		87,403	(10,806)
Discontinued operations		65,600	62,049
		<u>153,003</u>	<u>51,243</u>
Investment income	21	(377,685)	(335,742)
Realised losses/(gains) recorded in profit or loss	22	50,227	(14,010)
Fair value (gains)/losses recorded in profit or loss	23	(56,578)	11,612
Unrealised foreign exchange gains recorded in profit or loss	27	(4,431)	-
Proceeds from sale of investment properties		145,648	41,282
Purchases of financial assets at fair value through profit or loss	7(c)	(489,593)	(793,311)
Proceeds from sale of financial assets at fair value through profit or loss		446,390	638,647
Purchases of available-for-sale financial assets	7(c)	(1,557,196)	(1,424,168)
Proceeds from sale and redemption of available-for-sale financial assets		1,263,546	1,114,676
Decrease in loans and receivables		67,648	53,646
<b>Non-cash items:</b>			
Depreciation of property, plant and equipment	4	5,715	4,129
Amortisation of intangible assets	5	3,645	3,726
Increase in provision for agents' retirement benefits	19	33	74
Utilisation of agents' retirement benefits	19	(108)	(84)
Allowance for impairment of insurance receivables	26	1,111	1,794
Tax expense	28	63,658	28,554
<b>Changes in working capital:</b>			
Increase in reinsurance assets		(6,890)	(5,377)
Decrease in insurance receivables		11,813	3,789
Decrease/(increase) in other receivables		19,960	(14,525)
Decrease in insurance contract liabilities		(232,217)	(1,525)
(Decrease)/increase in other liabilities		(30,745)	16,585
Increase in insurance payables		166,875	210,933
Cash utilised in operating activities		<u>(356,171)</u>	<u>(408,052)</u>

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the 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 classified under operating activities.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**32. CAPITAL AND OTHER COMMITMENTS**

Capital expenditure not provided for in the financial statements is as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Authorised and contracted for:		
- investment properties	<u>409</u>	<u>409</u>

**33. LEASE COMMITMENTS**

The lease commitments are in respect of rented premises and hired equipment, all of which are reclassified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Within one year	6,774	3,980
One year to less than five years	<u>5,429</u>	<u>4,607</u>
	<u>12,203</u>	<u>8,587</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**34. SIGNIFICANT RELATED PARTY DISCLOSURES**

**(a) Related parties and relationship**

The related party and their relationship with the Company as at 31 December 2016 are as follows:

<u>Name of company</u>	<u>Relationship</u>
Zurich Insurance Group Limited ("ZIGL")	Ultimate holding company
Zurich Insurance Company Ltd. ("ZICL")	Immediate holding company
Zurich Property Services Malaysia Sdn. Bhd.	Subsidiary of ZICL
Zurich Roadside Assistance Malaysia Sdn. Bhd.	Subsidiary of ZICL
Zurich Shared Services Malaysia Sdn. Bhd.	Subsidiary of ZICL
Zurich Services Malaysia Sdn. Bhd.	Subsidiary of ZICL
Zurich Financial Services Australia Limited	Subsidiary of ZICL
Zurich Services (Hong Kong) Limited	Subsidiary of ZICL
Zurich American Insurance Company	Subsidiary of ZICL
Zurich Takaful Malaysia Berhad	Subsidiary of ZICL
Zurich International Life Limited	Subsidiary of ZICL
Zurich Insurance Company Ltd., Labuan Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Singapore Branch	Branch office of ZICL

**(b) Related party transactions**

In the normal course of business, the Company undertakes various transactions with other companies deemed related by virtue of being subsidiary and associated companies of ZIGL, collectively known as ZIGL Group, at agreed terms and prices.

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Reinsurance transactions with:		
Zurich Insurance Company Ltd.:		
- Reinsurance premiums paid	93,757	80,535
- Reinsurance commissions received	(8,587)	(8,691)
- Reinsurance claims recovered	(8,404)	(9,436)
Zurich Insurance Company Ltd., Labuan Branch:		
- Reinsurance premiums paid	14,259	22,572
- Reinsurance commissions received	(3,239)	(3,264)
- Reinsurance claims recovered	(1,691)	(2,361)
Zurich Insurance Company Ltd., Singapore Branch:		
- Reinsurance premiums paid	1	702
- Reinsurance commissions received	-	(92)

**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**34. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

**(b) Related party transactions (continued)**

The significant related party transactions during the financial year with related parties are as follows:

	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Rental income received/receivable from:		
- Zurich Property Services Malaysia Sdn. Bhd.	-	(13)
- Zurich Roadside Assistance Malaysia Sdn. Bhd.	(118)	(100)
- Zurich Services Malaysia Sdn. Bhd.	(541)	(489)
- Zurich Shared Services Malaysia Sdn. Bhd.	(538)	(520)
Other transactions:		
Accounting, payroll and administration fees received/receivable from:		
- Zurich Property Services Malaysia Sdn. Bhd.	-	(20)
- Zurich Services Malaysia Sdn. Bhd.	-	(96)
Breakdown services assistance charges paid/payable to:		
- Zurich Roadside Assistance Malaysia Sdn. Bhd.	2,306	2,019
Software development, system support, purchase of computer equipment and maintenance fees paid/payable to:		
- Zurich Services Malaysia Sdn. Bhd.	14,243	12,453
FSCM investment management fees:		
- Zurich Services (Hong Kong) Limited	986	1,232
Actuarial support fees:		
- Zurich Shared Services Malaysia Sdn. Bhd.	672	621
Reimbursement costs to/(from):		
- Zurich Insurance Company Ltd.	3,636	12,362
- Zurich Financial Services Australia Limited	-	586
- Zurich American Insurance Company	5,581	2,729
- Zurich Services (Hong Kong) Limited	3,340	3,998
- Zurich International Life Limited	128	-
- Zurich Takaful Malaysia Berhad	(2,378)	-

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**34. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

**(c) Related party balances**

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
<u>Included in insurance receivables/(payables):</u>		
Zurich Insurance Company Ltd.	(67,314)	(42,476)
Zurich Insurance Company Ltd., Labuan Branch	499	(9,425)
Zurich Insurance Company Ltd., Singapore Branch	(4,382)	(5,557)
Zurich Takaful Malaysia Berhad	(194)	-
Zurich Insurance Company Ltd, Hong Kong	(8)	-
<u>Included in other receivables/(payables):</u>		
Zurich Roadside Assistance Malaysia Sdn. Bhd.	(1,169)	(1,182)
Zurich Insurance Company Ltd.	(4,106)	(4,064)
Zurich American Insurance Company	(2,090)	234
Zurich Services (Hong Kong) Limited	(3,801)	3,230
Zurich Services Malaysia Sdn. Bhd.	124	80
Zurich Shared Services Malaysia Sdn. Bhd.	(77)	(133)
Zurich Takaful Malaysia Berhad	2,378	-

**(c) Key management personnel**

Executive Director and key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Company's key management personnel as well as fees and allowances paid to the Executive Director were as follows:

	<b>2016</b> <b>RM'000</b>	<b>2015</b> <b>RM'000</b>
Salaries and other short-term employee benefits	16,515	16,767
Defined contribution retirement benefits	2,961	1,957
	<u>19,476</u>	<u>18,724</u>

The remuneration attributable to the Chief Executive Officer ("CEO") of the Company during the financial year ended 31 December 2016 was RM3,700,000 (2015: RM2,843,000).

The estimated monetary value of benefits provided to CEO during the financial year by way of usage of the Company's assets was RM31,000 (2015: RM31,000).

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**35. RISK MANAGEMENT FRAMEWORK**

**Risk Governance Structure**

The Company's risk governance structure and risk reporting requirement are incorporated in the Company's Risk Management Framework. The Framework explains the underlying approach and defines an on-going and consistent process for identifying, analysing, evaluating, treating, monitoring and reporting significant risks faced by the business units, divisions, stakeholders and ultimately, the Company. It also outlines the key aspects of the risks management process and identifies the main reporting procedures.

The adoption of the Framework is the responsibility of the Board with some of the responsibilities delegated to the Risk Management Committee. The Company has established senior management committees which act as platform for two-way communication between the Management and the Board. The Committees are the ALMIC, HRC, ITSC, BCM, RCC, OSHC and the various Senior Management Committees for Life and General Businesses. All these committees are chaired by the Chief Executive Officer or a member of senior management team.

They are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition, and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

**Regulatory Framework**

The Company is required to comply with the FSA and BNM Regulations, as applicable.

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**35. RISK MANAGEMENT FRAMEWORK (CONTINUED)**

**Capital Management**

The Company's capital management policy is to create shareholders value, maintain a strong capital position with sufficient buffer to meet policyholders' obligations and regulatory requirements, and make strategic investments for business growth.

The minimum Capital Adequacy Ratio ("CAR") under the RBC Framework regulated by BNM is 130% for each insurance entity. The Company complied with the minimum CAR as at 31 December 2016 and 31 December 2015.

The regulated capital of the Company as at 31 December 2016 comprised Available Capital of RM2,229,508,000 (2015: RM2,148,519,000).

The capital structure of the Company as at 31 December 2016, as prescribed under the RBC Framework, is shown below:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Tier 1 Capital</u></b>		
Paid-up share capital	579,000	579,000
Reserves, including retained earnings	<u>1,592,500</u>	<u>1,535,943</u>
	<u>2,171,500</u>	<u>2,114,943</u>
<b><u>Tier 2 Capital</u></b>		
Assets revaluation reserve	24,910	24,910
Available-for-sale reserve	<u>64,565</u>	<u>48,582</u>
	<u>89,475</u>	<u>73,492</u>
Less:		
Deferred tax assets	<u>(31,467)</u>	<u>(39,916)</u>
<b>Total Capital Available</b>	<u><u>2,229,508</u></u>	<u><u>2,148,519</u></u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK**

The risk underlying any insurance contract is the likelihood of the insured event occurring and the uncertainty in the amount of the resulting claims. This risk is random and therefore unpredictable.

For a portfolio of insurance contracts, the principal risk that the Company faces is that claims and benefit payments exceed the amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. The actual number and amount of claims and benefits will vary from year to year from the level established using statistical estimation techniques.

**Life Insurance Contracts**

Life insurance contracts offered by the Company include whole life, term assurance, endowments, annuity contracts, investment-linked contracts, and medical and health riders. The Company currently does not offer any investment contracts with DPF.

The main risks that the Company is exposed to are the following:

- Mortality risk – risk of loss arising due to policyholders' death experience being worse than expected
- Morbidity risk – risk of loss arising due to policyholders' health experience being worse than expected
- Investment return/Interest rate risk – risk of loss arising from actual returns being lower than expected
- Expense risk – risk of loss arising from expense experience being higher than expected
- Lapse risk – risk of loss arising due to policyholders' surrender experience deviate from that expected

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured or by industry.

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is broadly achieved through diversification across industry sectors and geography, use of medical screening to ensure that pricing reflects policyholders' health condition and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims procedures.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**Life Insurance Contracts (continued)**

The table below shows the concentration of the liabilities for future policyholders' benefits by type of contract:

	<b>Gross</b>			<b>Reinsurance</b>			
	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>31 December 2016</u>							
Life Contracts:							
Whole life	1,432,216	52,392	1,484,608	-	-	-	1,484,608
Endowment	377,623	423,427	801,050	-	-	-	801,050
Term-Mortgage	231	72,427	72,658	-	-	-	72,658
Term-Others	147,065	103,641	250,706	-	-	-	250,706
Term-Medical & Health	-	44,804	44,804	-	-	-	44,804
Term- Other plans	-	927	927	-	-	-	927
Term-Other provision	-	18,999	18,999	(7,230)	(16,267)	(23,497)	(4,498)
Annuity Contracts:							
Immediate annuities	439	-	439	-	-	-	439
Deferred annuities	780,848	-	780,848	-	-	-	780,848
Total Life Insurance	<u>2,738,422</u>	<u>716,617</u>	<u>3,455,039</u>	<u>(7,230)</u>	<u>(16,267)</u>	<u>(23,497)</u>	<u>3,431,542</u>

As all of the business is derived from Malaysia, the entire life insurance liabilities are in Malaysia.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**Life Insurance Contracts (continued)**

The table below shows the concentration of the liabilities for future policyholders' benefits by type of contract:

	<b>Gross</b>			<b>Reinsurance</b>			
	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>31 December 2015</u>							
Life Contracts:							
Whole life	1,602,497	57,744	1,660,241	-	-	-	1,660,241
Endowment	409,023	406,897	815,920	-	-	-	815,920
Term-Mortgage	384	79,979	80,363	-	-	-	80,363
Term-Others	148,074	101,595	249,669	-	-	-	249,669
Term-Medical & Health	-	44,325	44,325	-	-	-	44,325
Term- Other plans	-	693	693	-	-	-	693
Term-Other provision	6,200	19,000	25,200	(6,465)	(16,702)	(23,167)	2,033
Annuity Contracts:							
Immediate annuities	478	-	478	-	-	-	478
Deferred annuities	745,120	-	745,120	-	-	-	745,120
Total Life Insurance	<u>2,911,776</u>	<u>710,233</u>	<u>3,622,009</u>	<u>(6,465)</u>	<u>(16,702)</u>	<u>(23,167)</u>	<u>3,598,842</u>

As all of the business is derived from Malaysia, the entire life liabilities are in Malaysia.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**Life Insurance Contracts (continued)**

**Key Assumptions**

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Assumptions and prudent estimates are determined at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The table below shows the key underlying assumptions used for valuation of life insurance contract liabilities:

Assumptions	Description
Valuation Method	<p>Gross Premium Valuation</p> <p>For Life Participating fund, liabilities taken as the higher value derived below:</p> <p>(i) Total benefits (i.e. guaranteed and non-guaranteed benefits cash flows) with best estimates assumptions and discounted by Fund Based Yield, or</p> <p>(ii) Guaranteed benefits cash flows with best estimates plus provision for risk of adverse deviation ("PRAD") assumptions and discounted by Malaysia Government Bond yields (as outlined below).</p> <p>For Life Non-Participating business, only value from (ii) is taken.</p>
Interest Rate	<p>Malaysia Government bond yields determined based on the following:</p> <p>(i) For cash flows with duration less than 15 years, Malaysia Government Bond zero coupon spot yields of matching duration.</p> <p>(ii) For cash flows with duration 15 years or more, Malaysia Government Bond zero coupon spot yields of 15 years to maturity.</p> <p>Data source: Malaysia Government Bond zero coupon spot yield from Bond Pricing Agency Malaysia Sdn. Bhd.</p>
Mortality, Disability, Dread disease, Expense, Lapse and Surrenders	<p>Best estimate and PRAD assumptions are determined based on internal experience studies, with due regard to significant recent experience. These assumptions reflect the Company's long term view of future experience that is expected to emerge.</p> <p>Data source: Internal experience studies.</p>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**Life Insurance Contracts (continued)**

**Sensitivities**

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. 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. Sensitivity information will also vary according to the current economic assumptions.

	<b>Change in assumptions</b>	<b>Impact on gross life insurance contract liabilities</b>	<b>Impact on net life insurance contract liabilities</b>	<b>Impact on profit before tax</b>	<b>Impact on equity</b>
	<b>%</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>31 December 2016</u></b>					
Mortality/morbidity	+10	64,015	63,580	(63,580)	(55,679)
Mortality/morbidity	-10	(65,070)	(64,628)	64,628	57,207
Expenses	+10	44,098	43,798	(43,798)	(30,644)
Lapse and surrender rates	+10	(31,428)	(31,215)	31,215	4,657
Lapse and surrender rates	-10	35,603	35,361	(35,361)	(4,530)
Investment return	+1	(222,477)	(220,964)	220,964	97,832
Investment return	-1	268,950	267,121	(267,121)	(119,075)
Discount rate	+1	(93,715)	(93,078)	93,078	70,739
Discount rate	-1	116,387	115,595	(115,595)	(87,852)
<b><u>31 December 2015</u></b>					
Mortality/morbidity	+10	68,436	67,997	(67,997)	(56,493)
Mortality/morbidity	-10	(69,816)	(69,369)	69,369	58,022
Expenses	+10	42,981	42,706	(42,706)	(30,586)
Lapse and surrender rates	+10	(30,674)	(30,478)	30,478	9,006
Lapse and surrender rates	-10	35,493	35,266	(35,266)	(9,077)
Investment return	+1	(196,326)	(195,068)	195,068	112,182
Investment return	-1	252,180	250,565	(250,565)	(132,636)
Discount rate	+1	(92,261)	(91,670)	91,670	69,669
Discount rate	-1	128,211	127,390	(127,390)	(83,370)

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts**

The risks inherent in general insurance contracts are reflected in the insurance contract liabilities which include premium and claims liabilities, as set out under Note 16(b) to the financial statements. Premium liabilities comprise reserves for unexpired risks, whilst claims liabilities comprise loss reserves which include provisions for both outstanding claims notified and outstanding claims incurred but not reported.

The Company sets to manage its insurance risks for general insurance policies by having a clearly defined framework as follows:

- Writing a balanced mix and spread of business, geographically and between classes of business;
- Underwriting strategies focused on profitable lines of business are clearly articulated to stakeholders;
- Underwriting authority limits for capacity are in place according to individuals' capacity in the underwriting process;
- Mitigating insurance risks through purchase of both proportional and non-proportional reinsurance treaties; and
- Regular monitoring of claims experience and comparing actual experience against that implied in pricing.

The concentration of the general insurance claims liabilities in relation to the type of insurance contracts accepted is as summarised below:

	< ---- Discontinued operations ---- >			< ----- Continuing operations ----- >		
	<b>2016</b>			<b>2015</b>		
	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fire	40,351	(19,777)	20,574	31,443	(9,046)	22,397
Motor Vehicle	272,502	(5,550)	266,952	289,077	(5,737)	283,340
Motor Cycle	80,831	(2,007)	78,824	69,433	(1,370)	68,063
Marine, Aviation and Transit	16,605	(12,058)	4,547	18,148	(13,450)	4,698
Miscellaneous	86,382	(50,497)	35,885	78,843	(43,385)	35,458
At 31 December	<u>496,671</u>	<u>(89,889)</u>	<u>406,782</u>	<u>486,944</u>	<u>(72,988)</u>	<u>413,956</u>

**Key Assumptions**

Outstanding claims provisions are usually established by skilled claims personnel based upon their experience and knowledge, and known facts of individual claims at hand. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson ("BF") methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses based upon past development patterns including the implicit underlying trends.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Key Assumptions (continued)**

Thus, general insurance contract liabilities are normally determined based on previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Of particular relevance is past experience with similar cases, historical claims development trends, legislation changes, judicial decisions, economic conditions and claims handling procedure.

However, additional qualitative judgements are also used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates. The estimates of the general insurance contract liabilities are therefore sensitive to various factors and uncertainties and the actual future premium and claim liabilities may not develop exactly as projected and could vary significantly from initial estimates. To increase the probability that the estimates would ultimately be adequate, provisions for adverse deviations are also included in the estimates.

The Company further reduces its risk exposure through strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. In addition, the Company enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

**Sensitivities**

The general insurance claims liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed on the total portfolio for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation among assumptions could 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.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Sensitivities (continued)**

	<u>Change in assumptions</u>	<u>Impact on gross claims liabilities</u>	<u>Impact on net claims liabilities</u>	<u>Impact on profit before tax</u>	<u>Impact on equity</u>
		RM'000	RM'000	RM'000	RM'000
Discontinued operations					
<u>31 December 2016</u>					
Average claim cost	+10%	44,942	36,035	(36,035)	(27,026)
Average number of claims	+10%	43,446	37,497	(37,497)	(28,122)
Average claim settlement period	Increased by 6 months	11,632	10,572	(10,572)	(7,929)
<u>31 December 2015</u>					
Average claim cost	+10%	40,373	34,816	(34,816)	(26,112)
Average number of claims	+10%	38,682	35,533	(35,533)	(26,650)
Average claim settlement period	Increased by 6 months	10,362	9,934	(9,934)	(7,451)

The method used for deriving sensitivity information and significant assumptions did not change from the previous financial year, except that in current financial year, the sensitivities analysis has taken into consideration the maturity and closure of claims across development periods with the test being applied on outstanding claims count projection. This has resulted in lower impact on settled claims count for matured older accident years. Accordingly, the comparative figure reported under average number of claims for the financial year ended 31 December 2015 has been restated.

**Claims Development Table**

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each date of the statement of financial position, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development, and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Discontinued operations

Gross General Insurance Contract Liabilities for 2016:

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Ultimate claims incurred:									
At end of the accident year					261,232	288,266	295,848	331,565	
One year later				232,759	253,808	290,744	292,121		
Two years later			246,729	227,345	253,611	289,068			
Three years later		275,130	245,610	227,867	254,750				
Four years later	237,962	274,422	243,426	225,210					
Five years later	236,282	272,469	241,109						
Six years later	233,358	268,389							
Seven years later	232,093								
Current estimate of cumulative claims incurred	<u>232,093</u>	<u>268,389</u>	<u>241,109</u>	<u>225,210</u>	<u>254,750</u>	<u>289,068</u>	<u>292,121</u>	<u>331,565</u>	<u>2,134,305</u>
Cumulative claims paid									
At end of accident year	77,026	93,598	96,475	87,840	85,438	91,962	106,374	129,917	
One year later	164,381	197,953	179,182	173,198	185,422	200,905	206,290		
Two years later	200,042	238,849	215,146	200,515	215,056	236,670			
Three years later	219,422	252,287	224,262	210,860	229,275				
Four years later	224,727	257,643	227,874	214,947					
Five years later	227,223	259,703	230,153						
Six years later	227,868	261,471							
Seven years later	228,687								
Cumulative payments to-date	<u>228,687</u>	<u>261,471</u>	<u>230,153</u>	<u>214,947</u>	<u>229,275</u>	<u>236,670</u>	<u>206,290</u>	<u>129,917</u>	<u>1,737,410</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Discontinued operations

Gross General Insurance Contract Liabilities for 2016 (continued):

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Direct and facultative inwards	3,406	6,918	10,956	10,263	25,475	52,398	85,831	201,648	396,895
Direct and facultative inwards prior to assessment year 2009									3,351
Treaty inwards									961
MMIP									42,291
									<u>443,498</u>
<b>Best Estimate of Claim Liabilities</b>									
<b>Claim Handling Expenses</b>									8,218
<b>Fund PRAD at 75% Confidence Level</b>									44,955
<b>Gross General Insurance Claim Liabilities</b>									<u><u>496,671</u></u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Discontinued operations

Net General Insurance Contract Liabilities for 2016:

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Ultimate claims incurred:									
At end of the accident year				235,651	239,314	265,253	273,974	294,600	
One year later			225,930	206,028	236,089	258,963	270,616		
Two years later		217,453	193,252	203,174	234,080	255,954			
Three years later	169,803	200,255	192,493	204,328	231,678				
Four years later	163,138	200,829	191,647	201,809					
Five years later	163,077	199,854	190,791						
Six years later	161,678	196,793							
Seven years later	161,123								
Current estimate of cumulative claims incurred	<u>161,123</u>	<u>196,793</u>	<u>190,791</u>	<u>201,809</u>	<u>231,678</u>	<u>255,954</u>	<u>270,616</u>	<u>294,600</u>	<u>1,803,364</u>
Cumulative claims paid									
At end of accident year	58,265	72,886	77,832	81,687	82,300	89,042	102,869	121,786	
One year later	116,109	147,061	145,499	157,482	176,527	184,144	197,328		
Two years later	141,484	177,128	174,003	182,494	201,761	217,757			
Three years later	152,889	187,628	180,962	191,805	212,560				
Four years later	157,412	192,257	183,725	195,015					
Five years later	158,513	194,477	184,903						
Six years later	159,043	195,936							
Seven years later	159,391								
Cumulative payments to-date	<u>159,391</u>	<u>195,936</u>	<u>184,903</u>	<u>195,015</u>	<u>212,560</u>	<u>217,757</u>	<u>197,328</u>	<u>121,786</u>	<u>1,484,676</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Discontinued operations

Net General Insurance Contract Liabilities for 2016 (continued):

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Direct and facultative inwards	1,732	857	5,888	6,794	19,118	38,197	73,288	172,814	318,688
Direct and facultative inwards prior to assessment year 2009									2,057
Treaty inwards									961
MMIP									42,291
									<u>363,997</u>
<b>Best Estimate of Claim Liabilities</b>									
<b>Claim Handling Expenses</b>									8,218
<b>Fund PRAD at 75% Confidence Level</b>									34,567
<b>Net General Insurance Claim Liabilities</b>									<u><u>406,782</u></u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Continuing operations

Gross General Insurance Contract Liabilities for 2015:

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Ultimate claims incurred:									
At end of the accident year						261,232	288,266	295,848	
One year later					232,759	253,808	290,744		
Two years later				246,729	227,345	253,611			
Three years later			275,130	245,610	227,867				
Four years later		237,962	274,422	243,426					
Five years later	209,399	236,282	272,469						
Six years later	206,998	233,358							
Seven years later	205,999								
Current estimate of cumulative claims incurred	<u>205,999</u>	<u>233,358</u>	<u>272,469</u>	<u>243,426</u>	<u>227,867</u>	<u>253,611</u>	<u>290,744</u>	<u>295,848</u>	<u>2,023,322</u>
Cumulative claims paid									
At end of accident year	68,670	77,026	93,598	96,475	87,840	85,438	91,962	106,374	
One year later	158,211	164,381	197,953	179,182	173,198	185,422	200,905		
Two years later	183,681	200,042	238,849	215,146	200,515	215,056			
Three years later	195,686	219,422	252,287	224,262	210,860				
Four years later	200,227	224,727	257,643	227,874					
Five years later	202,406	227,223	259,703						
Six years later	202,993	227,868							
Seven years later	203,770								
Cumulative payments to-date	<u>203,770</u>	<u>227,868</u>	<u>259,703</u>	<u>227,874</u>	<u>210,860</u>	<u>215,056</u>	<u>200,905</u>	<u>106,374</u>	<u>1,652,410</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Continuing operations

Gross General Insurance Contract Liabilities for 2015 (continued):

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Direct and facultative inwards	2,229	5,490	12,766	15,552	17,007	38,555	89,839	189,474	370,912
Direct and facultative inwards prior to assessment year 2008 and late claims adjustment									3,177
Treaty inwards									1,015
MMIP									69,483
									<u>444,587</u>
<b>Best Estimate of Claim Liabilities</b>									
<b>Claim Handling Expenses</b>									8,602
<b>Fund PRAD at 75% Confidence Level</b>									33,755
<b>Gross General Insurance Claim Liabilities</b>									<u><u>486,944</u></u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Continuing operations

Net General Insurance Contract Liabilities for 2015:

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Ultimate claims incurred:									
At end of the accident year					235,651	239,314	265,253	273,974	
One year later				225,930	206,028	236,089	258,963		
Two years later			217,453	193,252	203,174	234,080			
Three years later		169,803	200,255	192,493	204,328				
Four years later	147,371	163,138	200,829	191,647					
Five years later	144,551	163,077	199,854						
Six years later	143,570	161,678							
Seven years later	143,114								
Current estimate of cumulative claims incurred	<u>143,114</u>	<u>161,678</u>	<u>199,854</u>	<u>191,647</u>	<u>204,328</u>	<u>234,080</u>	<u>258,963</u>	<u>273,974</u>	<u>1,667,638</u>
Cumulative claims paid									
At end of accident year	53,589	58,265	72,886	77,832	81,687	82,300	89,042	102,869	
One year later	109,678	116,109	147,061	145,499	157,482	176,527	184,144		
Two years later	127,998	141,484	177,128	174,003	182,494	201,761			
Three years later	136,494	152,889	187,628	180,962	191,805				
Four years later	139,563	157,412	192,257	183,725					
Five years later	140,780	158,513	194,477						
Six years later	141,346	159,043							
Seven years later	141,773								
Cumulative payments to-date	<u>141,773</u>	<u>159,043</u>	<u>194,477</u>	<u>183,725</u>	<u>191,805</u>	<u>201,761</u>	<u>184,144</u>	<u>102,869</u>	<u>1,359,597</u>

**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**36. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Continuing operations

Net General Insurance Contract Liabilities for 2015 (continued):

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Direct and facultative inwards	1,341	2,635	5,377	7,922	12,523	32,319	74,819	171,105	308,041
Direct and facultative inwards prior to assessment year 2008 and late claims adjustment									1,810
Treaty inwards									1,015
MMIP									69,483
									<u>380,349</u>
<b>Best Estimate of Claim Liabilities</b>									
<b>Claim Handling Expenses</b>									8,602
<b>Fund PRAD at 75% Confidence Level</b>									25,005
<b>Net General Insurance Claim Liabilities</b>									<u>413,956</u>

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **37. FAIR VALUE MEASUREMENTS**

#### **(a) Determination of fair value and 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 - Quoted market price**

Included in the quoted price category are financial instruments that are measured 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, secondary market via dealer and broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

##### **Level 2 - Valuation Techniques - Market Observable Input**

Financial instruments and non-financial instruments are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services, but where prices have not been determined in an active market, instruments with fair values based on broker quotes and discounted cash flows, agency asset backed securities and non-agency asset backed securities with Bloomberg composite rating correspond AAA and investment in structured products with fair values obtained via investment bankers and/or fund managers.

Non-financial instruments which its asset class is investment properties are also measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions as well as the discounted cash flows (at the discount rates ranged from 5% to 6.25%) of the current rental income based on usual tenancy term in open market value.

##### **Level 3 - Valuation Techniques - Unobservable input**

Non-market observable inputs mean that fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset class in this category are unquoted equity securities, non-agency asset backed securities with Bloomberg composite rating does not correspond AAA, non-performing loans and debt securities from organisations in default. Valuation techniques of these portfolios are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the instrument at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data and judgments. The judgment applied in valuing the non-performing loans is explained in Note 3(a)(iii) to the financial statements.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**37. FAIR VALUE MEASUREMENTS (CONTINUED)**

**(b) Financial instruments and non-financial assets carried at fair value**

The following tables show the Company's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Continuing operations				
<u>31 December 2016</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	1,139,852	-	1,139,852
- Corporate debt securities	-	3,937,064	2,600	3,939,664
- Equity securities	183,722	-	11,438	195,160
- Unit trusts	1,023	-	-	1,023
FVTPL financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	15,131	-	15,131
- Corporate debt securities	-	162,803	-	162,803
- Equity securities	1,044,587	-	-	1,044,587
- Unit trusts	76,128	97,896	-	174,024
Non-financial assets				
Investment properties	-	303,490	-	303,490
Non-current assets held-for-sale	-	1,058,932	-	1,058,932
	<u>1,305,460</u>	<u>6,715,168</u>	<u>14,038</u>	<u>8,034,666</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**37. FAIR VALUE MEASUREMENTS (CONTINUED)**

**(b) Financial instruments and non-financial assets carried at fair value (continued)**

The following tables show the Company's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Discontinued operations				
<u>31 December 2016</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	135,167	-	135,167
- Corporate debt securities	-	304,695	1,940	306,635
- Equity securities	52,138	-	-	52,138
- Unit trusts	290	246,182	-	246,472
Non-financial assets				
Investment properties	-	11,960	-	11,960
	<u>52,428</u>	<u>698,004</u>	<u>1,940</u>	<u>752,372</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**37. FAIR VALUE MEASUREMENTS (CONTINUED)**

**(b) Financial instruments and non-financial assets carried at fair value (continued)**

The following tables show the Company's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31 December 2015</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	1,090,191	-	1,090,191
- Corporate debt securities	-	4,085,653	4,540	4,090,193
- Equity securities	233,853	-	8,895	242,748
- Unit trusts	5,613	237,193	-	242,806
FVTPL financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	15,716	-	15,716
- Corporate debt securities	-	207,737	-	207,737
- Equity securities	971,919	-	-	971,919
- Unit trusts	75,709	94,537	-	170,246
Non-financial assets				
Investment properties	-	330,437	-	330,437
Non-current assets held-for-sale	-	143,102	-	143,102
	<u>1,287,094</u>	<u>6,204,566</u>	<u>13,435</u>	<u>7,505,095</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**37. FAIR VALUE MEASUREMENTS (CONTINUED)**

**(c) Financial instruments not measured at fair value but for which fair value is disclosed**

The following tables show the Company's financial instruments which are not measured at fair value at the reporting date but for which fair value is disclosed, analysed by the various levels within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Continuing operations				
<u>31 December 2016</u>				
Financial assets				
Loans and receivables				
- Policy loans	-	255,050	-	255,050
- Mortgage loans	-	37,857	86,786	124,643
- Other secured loans	-	59	-	59
Non-financial assets				
Property, plant and equipment	-	5,622	-	5,622
	<u>-</u>	<u>298,588</u>	<u>86,786</u>	<u>385,374</u>
Discontinued operations				
<u>31 December 2016</u>				
Financial assets				
Loans and receivables				
- Mortgage loans	-	133	-	133
- Other secured loans	-	74	-	74
	<u>-</u>	<u>207</u>	<u>-</u>	<u>207</u>
<u>31 December 2015</u>				
Financial assets				
Loans and receivables				
- Policy loans	-	251,312	-	251,312
- Mortgage loans	-	9,396	98,032	107,428
- Other secured loans	-	82	74,592	74,674
Non-financial assets				
Property, plant and equipment	-	6,189	-	6,189
	<u>-</u>	<u>266,979</u>	<u>172,624</u>	<u>439,603</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**37. FAIR VALUE MEASUREMENTS (CONTINUED)**

**(d) Fair value measurements using valuation techniques based on unobservable input (level 3)**

The following table show the changes in level 3 items for the financial years ended 31 December 2016 and 2015 for recurring fair value measurements:

	<u>AFS</u>	<u>FVTPL</u>	<u>LAR</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
At 1 January 2015	13,774	256	172,431
Additions	-	-	752
Disposals	(9,959)	(517)	(559)
Interest adjustment	(1)	(1)	-
Fair value changes			
- Credited to statement of profit or loss	-	262	-
- Credited to other comprehensive income	9,621	-	-
At 31 December 2015	13,435	-	172,624
Disposals	(8,765)	-	(85,838)
Fair value changes			
- Credited to other comprehensive income	11,308	-	-
Transfer to assets of a disposal group classified as held-for-sale	(1,940)	-	-
At 31 December 2016	<u>14,038</u>	<u>-</u>	<u>86,786</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**38. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangement and similar arrangement are as follows:

	<b>Gross amount recognised as financial assets/ liabilities</b>	<b>Gross amount offset in the statement of financial position</b>	<b>Amount presented in the statement of financial position</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Continuing operations			
<u>31 December 2016</u>			
Financial assets:			
Insurance receivables	<u>39,124</u>	<u>(4,323)</u>	<u>34,801</u>
Financial liabilities:			
Insurance payables	<u>1,688,291</u>	<u>(4,323)</u>	<u>1,683,968</u>
Discontinued operations			
<u>31 December 2016</u>			
Financial assets:			
Insurance receivables	<u>65,002</u>	<u>(4,455)</u>	<u>60,547</u>
Financial liabilities:			
Insurance payables	<u>120,742</u>	<u>(4,455)</u>	<u>116,287</u>
<u>31 December 2015</u>			
Financial assets:			
Insurance receivables	<u>121,741</u>	<u>(13,469)</u>	<u>108,272</u>
Financial liabilities:			
Insurance payables	<u>1,646,849</u>	<u>(13,469)</u>	<u>1,633,380</u>

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2016 (2015: RM Nil).

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **39. FINANCIAL RISK**

The Company is exposed to a range of financial risks through its assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that in the long term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk, and market risk which comprise of currency risk, interest rate/profit yield risk and price risk.

The Company manages these positions within an Asset Liability Management (“ALM”) framework that has been developed to achieve long term investment returns in excess its obligations under insurance contracts. The key principle of the framework is to match assets to the liabilities by reference to the type of benefits payable to contract holders. For each distinct class of liabilities, a separate portfolio of assets is maintained and monitored.

The Company’s ALM is integrated with the management of the financial risks associated with the Company’s other classes of financial assets and liabilities not directly associated with insurance liabilities. The note below explains how financial risks are managed using the categories utilised in the Company’s ALM framework. In particular, the ALM framework requires the management of interest rate risk, equity price risk, credit risk and liquidity risk at both business line level and company-wide basis. The following notes are in relation to the Company’s management disclosure with respect to credit risk, liquidity risk, interest rate risk, and price risk.

#### **Credit Risk**

The Company has exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company is mainly exposed to credit risk through (i) investment in cash and private debt securities, (ii) corporate/individuals and mortgage lending activities, and (iii) exposure to counterparty’s reinsurance contracts. For investments in private debt securities, a downgrade of credit rating or widening of credit spread may also incur financial loss.

Minimum credit quality applies to investments in private debt securities/bonds with a minimum rating of A-/A2 (at the date of investment) provided by Malaysian Rating Corporation Berhad (“MARC”) and Rating Agency Malaysia Berhad (“RAM”), respectively. The Company however intends to maintain an average rating of AA in the overall bond portfolio under current investment strategy and objectives. The Company does not solely depend on the rating report provided but as in all credit assessments/reviews are based on publicly available issuer information together with in-house analysis based on information provided by the borrower/issuer, peer group comparisons, industry comparisons and other quantitative tools.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company’s liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company issues unit-linked investment policies. In the unit-linked business, the holders of these contract bear the investment risks on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit-linked financial assets.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

Debtor recoverability and risk concentration monitoring are part of credit risk management which is reviewed regularly. The management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation. Allowance of impairment/specific provision is made on those securities/loans (or part of remaining amount) where the level of security has been impaired. Refer to Note 8 to the financial statements for more details on assessment and disclosure of credit risk on loan borrowers.

**Credit Exposure**

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Note	Insurance and Shareholders' Funds RM'000	Unit-Linked RM'000	Total RM'000
Continuing operations				
<u>31 December 2016</u>				
AFS financial assets:	7(a)			
- Malaysian Government Securities/Government Investment Issues		1,139,852	-	1,139,852
- Corporate debt securities		3,939,664	-	3,939,664
- Equity securities		11,438	-	11,438
FVTPL financial assets:	7(b)			
- Malaysian Government Securities/Government Investment Issues		-	15,131	15,131
- Corporate debt securities		-	162,803	162,803
Loans and receivables:	8			
- Loans		379,752	-	379,752
Reinsurance assets		29,208	-	29,208
Insurance receivables	10	34,801	-	34,801
Other receivables		9,397	1,799	11,196
Cash and cash equivalents		113,930	72,447	186,377
		<u>5,658,042</u>	<u>252,180</u>	<u>5,910,222</u>



**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure (continued)**

	<b>Note</b>	<b>General fund</b> <b>RM'000</b>
Discontinued operations		
<u>31 December 2016</u>		
AFS financial assets:	12(b)	
- Malaysian Government Securities/Government Investment Issues		135,167
- Corporate debt securities		306,635
Loans and receivables:	12(b)	
- Loans		207
Reinsurance assets		89,889
Insurance receivables	12(b)	60,547
Other receivables		62,085
Cash and cash equivalents		23,524
		<u>678,054</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure (continued)**

	Note	Insurance and Shareholders' funds RM'000	Unit-Linked RM'000	Total RM'000
<u>31 December 2015</u>				
AFS financial assets:	7(a)			
- Malaysian Government Securities/Government Investment Issues		1,090,191	-	1,090,191
- Corporate debt securities		4,090,193	-	4,090,193
- Equity securities		8,895	-	8,895
FVTPL financial assets:	7(b)			
- Malaysian Government Securities/Government Investment Issues		-	15,716	15,716
- Corporate debt securities		-	207,737	207,737
Loans and receivables:	8			
- Loans		433,414	-	433,414
Reinsurance assets		100,527	-	100,527
Insurance receivables	10	108,272	-	108,272
Other receivables		89,330	3,668	92,998
Cash and cash equivalents		171,053	78,470	249,523
		<u>6,091,875</u>	<u>305,591</u>	<u>6,397,466</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating**

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

	Neither past-due nor impaired					Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade	Not rated	Unit Linked				
	Government Guarantee	(AAA to BBB)	(BB to C)					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Continuing operations								
31 December 2016								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	1,139,852	-	-	-	-	-	-	1,139,852
- Corporate debt securities	793,587	3,142,345	1,132	-	-	-	2,600	3,939,664
- Equity securities	-	-	-	11,438	-	-	-	11,438
FVTPL financial assets:								
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	15,131	-	-	15,131
- Corporate debt securities	-	-	-	-	162,803	-	-	162,803
Loans and receivables:								
- Loans	-	-	-	292,965	-	51,475	35,312	379,752
Reinsurance assets	-	26,059	-	3,149	-	-	-	29,208
Insurance receivables	-	2,837	-	1,483	-	30,481	-	34,801
Other receivables	-	-	-	9,397	1,799	-	-	11,196
Cash and cash equivalents	-	113,930	-	-	72,447	-	-	186,377
	<u>1,933,439</u>	<u>3,285,171</u>	<u>1,132</u>	<u>318,432</u>	<u>252,180</u>	<u>81,956</u>	<u>37,912</u>	<u>5,910,222</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating**

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

	Neither past-due nor impaired				Past due but not impaired	Impaired	Total
	Investment grade	Non- investment grade	Not rated				
	Government Guarantee	(AAA to BBB)	(BB to C)				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Discontinued operations							
<u>31 December 2016</u>							
AFS financial assets:							
- Malaysian Government Securities/ Government Investment Issues	135,167	-	-	-	-	-	135,167
- Corporate debt securities	17,273	287,422	-	-	-	1,940	306,635
Loans and receivables:							
- Loans	-	-	-	207	-	-	207
Reinsurance assets	-	87,231	46	2,612	-	-	89,889
Insurance receivables	-	-	-	-	-	60,547	60,547
Other receivables	-	-	-	62,085	-	-	62,085
Cash and cash equivalents	-	23,524	-	-	-	-	23,524
	<u>152,440</u>	<u>398,177</u>	<u>46</u>	<u>64,904</u>	<u>-</u>	<u>62,487</u>	<u>678,054</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating (continued)**

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

	Neither past-due nor impaired					Past due but not impaired	Impaired	Total
	Investment grade	Non- investment grade	Not rated	Unit Linked				
	Government Guarantee	(AAA to BBB)	(BB to C)					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2015</u>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	1,090,191	-	-	-	-	-	-	1,090,191
- Corporate debt securities	972,756	3,111,847	1,050	-	-	-	4,540	4,090,193
- Equity securities	-	-	-	8,895	-	-	-	8,895
FVTPL financial assets:								
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	15,716	-	-	15,716
- Corporate debt securities	-	-	-	-	207,737	-	-	207,737
Loans and receivables:								
- Loans	-	-	-	260,789	-	51,593	121,032	433,414
Reinsurance assets	-	93,245	93	7,189	-	-	-	100,527
Insurance receivables	-	7,506	-	765	-	39,542	60,459	108,272
Other receivables	-	-	-	89,330	3,668	-	-	92,998
Cash and cash equivalents	-	171,053	-	-	78,470	-	-	249,523
	<u>2,062,947</u>	<u>3,383,651</u>	<u>1,143</u>	<u>366,968</u>	<u>305,591</u>	<u>91,135</u>	<u>186,031</u>	<u>6,397,466</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating (continued)**

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

	Government Guarantee	AAA to AA	A1 to A3	BBB1 to BBB3	BB and below	Not rated	Unit Linked	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Continuing operations									
<u>31 December 2016</u>									
AFS financial assets:									
- Malaysian Government Securities/ Government Investment Issues	1,139,852	-	-	-	-	-	-	-	1,139,852
- Corporate debt securities	793,587	3,044,752	97,593	-	1,132	-	-	2,600	3,939,664
- Equity securities	-	-	-	-	-	11,438	-	-	11,438
FVTPL financial assets:									
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	-	-	15,131	-	15,131
- Corporate debt securities	-	-	-	-	-	-	162,803	-	162,803
Loans and receivables:									
- Loans	-	-	-	-	-	344,440	-	35,312	379,752
Reinsurance assets	-	187	25,872	-	-	3,149	-	-	29,208
Insurance receivables	-	-	2,837	-	-	31,964	-	-	34,801
Other receivables	-	-	-	-	-	9,397	1,799	-	11,196
Cash and cash equivalents	-	113,930	-	-	-	-	72,447	-	186,377
	<u>1,933,439</u>	<u>3,158,869</u>	<u>126,302</u>	<u>-</u>	<u>1,132</u>	<u>400,388</u>	<u>252,180</u>	<u>37,912</u>	<u>5,910,222</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating (continued)**

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

	Government Guarantee	AAA to AA	A1 to A3	BBB1 to BBB3	BB and below	Not rated	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Discontinued operations								
<u>31 December 2016</u>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	135,167	-	-	-	-	-	-	135,167
- Corporate debt securities	17,273	285,757	1,665	-	-	-	1,940	306,635
Loans and receivables:								
- Loans	-	-	-	-	-	207	-	207
Reinsurance assets	-	62,067	25,164	-	46	2,612	-	89,889
Insurance receivables	-	-	-	-	-	-	60,547	60,547
Other receivables	-	-	-	-	-	62,085	-	62,085
Cash and cash equivalents	-	23,524	-	-	-	-	-	23,524
	<u>152,440</u>	<u>371,348</u>	<u>26,829</u>	<u>-</u>	<u>46</u>	<u>64,904</u>	<u>62,487</u>	<u>678,054</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating (continued)**

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

	Government Guarantee	AAA to AA	A1 to A3	BBB1 to BBB3	BB and below	Not rated	Unit Linked	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2015</u>									
AFS financial assets:									
- Malaysian Government Securities/ Government Investment Issues	1,090,191	-	-	-	-	-	-	-	1,090,191
- Corporate debt securities	972,756	2,973,379	138,468	-	1,050	-	-	4,540	4,090,193
- Equity securities	-	-	-	-	-	8,895	-	-	8,895
FVTPL financial assets:									
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	-	-	15,716	-	15,716
- Corporate debt securities	-	-	-	-	-	-	207,737	-	207,737
Loans and receivables:									
- Loans	-	-	-	-	-	312,382	-	121,032	433,414
Reinsurance assets	-	40,890	52,355	-	93	7,189	-	-	100,527
Insurance receivables	-	842	6,664	-	-	40,307	-	60,459	108,272
Other receivables	-	-	-	-	-	89,330	3,668	-	92,998
Cash and cash equivalents	-	171,053	-	-	-	-	78,470	-	249,523
	<u>2,062,947</u>	<u>3,186,164</u>	<u>197,487</u>	<u>-</u>	<u>1,143</u>	<u>458,103</u>	<u>305,591</u>	<u>186,031</u>	<u>6,397,466</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating (continued)**

The credit risk analysis for the unit-linked business was not provided as the Company has no direct exposure to any credit risk in those assets.

The ratings shown for fixed and call deposits are based on the rating assigned to the respective financial institutions issuing the financial instruments.

In total, there are four (2015: seven) remaining occurrence of rating default events to date since the financial year ended 2005. During the financial year, we had recoveries from three of the defaulted bonds for RM8,765,000 (2015: RM9,840,000). No credit exposure limits were exceeded during the financial year.

As for the other four (4) corporate debt securities, the bondholders are pursuing recovery actions through negotiations and taking legal actions against the issuers.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

**Age Analysis of Financial Assets Past Due But Not Impaired**

	<b>Up to 3 months RM'000</b>	<b>3 months to 6 months RM'000</b>	<b>7 months to 12 months RM'000</b>	<b>&gt;12 months RM'000</b>	<b>Total RM'000</b>
<u>31 December 2016</u>					
Loans and receivables	-	-	-	51,475	51,475
Insurance receivables	30,481	-	-	-	30,481
	<u>30,481</u>	<u>-</u>	<u>-</u>	<u>51,475</u>	<u>81,956</u>
<u>31 December 2015</u>					
Loans and receivables	-	-	931	50,662	51,593
Insurance receivables	39,542	-	-	-	39,542
	<u>39,542</u>	<u>-</u>	<u>931</u>	<u>50,662</u>	<u>91,135</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Impaired Financial Assets**

At 31 December 2016, based on a individual assessment of receivables, there are impaired insurance receivables of RM1,167,000 (2015: RM9,217,000). For assets to be classified as “past-due and impaired”, contractual payments must be in arrears for more than three (3) months for insurance receivables and more than six (6) months for loans and receivables. In addition, full impairment were made on outstanding debts exceeding twelve months, outstanding debts with terminated status, closed accounts, commuted, winding-up under legal action, accounts written or those served letter of demand. This applies similarly to reinsurance assets, particularly reinsurance recoverable on outstanding claims. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate allowance for impairment loss accounts.

A reconciliation of the allowance for impairment loss of insurance receivables is as follows:

	<b>Insurance receivables</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	9,217	7,423
Allowance for the financial year (Note 26)	1,111	1,794
Transfer to assets of a disposal group classified as held-for-sale (Note 12(b))	(9,161)	-
At 31 December	<u>1,167</u>	<u>9,217</u>

**Liquidity Risk**

Liquidity risk is the risk that the Company is unable to meet its financial obligations when due. This situation arises when the Company is unable to convert its financial assets into cash when needed. Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings through committed credit facilities from bankers. 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 an adequate cushion in the form of cash and very liquid investments are maintained at all times. The projected cash flows from the in-force insurance policy contract liabilities consist of renewal premiums, commissions, claims, maturities and surrenders. Renewal premiums, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain.

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in life 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.

In addition, for general insurance contracts, the Company's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate drawdown of funds to meet claims payments should claims events exceed a certain amount.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Liquidity Risk (continued)**

**Maturity Profile**

The table below summarises the maturity profile of the Company's financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable. For insurance contract liabilities, maturity profiles are determined based on estimated timing of discounted net cash outflows from the recognised insurance liabilities. The insurance contract liabilities below are gross of reinsurance (no reinsurance credit is taken into account). Unit-linked liabilities are repayable or transferrable on demand and are included in the "up to a year" column. Repayments which are subject to notice are treated as if notice were to be given immediately. Products which have no maturity benefits such as term assurance and yearly renewable plans are excluded as these carry no maturity values. Products with no maturity dates are annuity and whole life plans. Unearned premiums have been excluded from the analysis as they are not contractual obligations.

	<b>Carrying value</b>	<b>Up to a year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>5 - 15 years</b>	<b>Over 15 years</b>	<b>No maturity date</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Continuing operations								
<u>31 December 2016</u>								
Financial Assets:								
AFS financial assets	5,275,699	459,220	1,011,772	866,163	3,920,371	1,197,542	196,183	7,651,251
FVTPL financial assets	1,396,545	11,774	30,447	22,959	171,079	60,022	1,218,611	1,514,892
Loans and receivables	379,752	372,295	1,596	1,512	4,307	42	-	379,752
Reinsurance assets	29,208	29,208	-	-	-	-	-	29,208
Insurance receivables	34,801	34,801	-	-	-	-	-	34,801
Other receivables	11,196	11,196	-	-	-	-	-	11,196
Cash and cash equivalents	186,377	186,377	-	-	-	-	-	186,377
	<u>7,313,578</u>	<u>1,104,871</u>	<u>1,043,815</u>	<u>890,634</u>	<u>4,095,757</u>	<u>1,257,606</u>	<u>1,414,794</u>	<u>9,807,477</u>

**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Liquidity Risk (continued)**

**Maturity Profile (continued)**

	<u>Carrying value</u>	<u>Up to a year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>5 - 15 years</u>	<u>Over 15 years</u>	<u>No maturity date</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Continuing operations								
<u>31 December 2016</u>								
Financial Liabilities:								
Insurance contract liabilities:								
- Life insurance	4,155,188	1,171,611	124,136	120,491	198,751	292,437	2,247,762	4,155,188
Other liabilities	77,258	76,400	858	-	-	-	-	77,258
Insurance payables	1,683,968	1,683,968	-	-	-	-	-	1,683,968
Provision for life agents' retirement benefit	554	84	145	114	211	-	-	554
	<u>5,916,968</u>	<u>2,932,063</u>	<u>125,139</u>	<u>120,605</u>	<u>198,962</u>	<u>292,437</u>	<u>2,247,762</u>	<u>5,916,968</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Liquidity Risk (continued)**

**Maturity Profile (continued)**

	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Discontinued operations								
<u>31 December 2016</u>								
Financial Assets:								
AFS financial assets	740,412	77,066	176,946	113,340	142,114	24,720	298,611	832,797
Loans and receivables	207	79	37	35	56	-	-	207
Reinsurance assets	89,889	89,889	-	-	-	-	-	89,889
Insurance receivables	60,547	60,547	-	-	-	-	-	60,547
Other receivables	62,085	62,085	-	-	-	-	-	62,085
Cash and cash equivalents	23,524	23,524	-	-	-	-	-	23,524
	<u>976,664</u>	<u>313,190</u>	<u>176,983</u>	<u>113,375</u>	<u>142,170</u>	<u>24,720</u>	<u>298,611</u>	<u>1,069,049</u>
Financial Liabilities:								
Insurance contract liabilities:								
- General insurance	496,671	275,360	158,915	34,376	28,020	-	-	496,671
Other liabilities	73,364	64,924	7,902	538	-	-	-	73,364
Insurance payables	116,287	116,287	-	-	-	-	-	116,287
	<u>686,322</u>	<u>456,571</u>	<u>166,817</u>	<u>34,914</u>	<u>28,020</u>	<u>-</u>	<u>-</u>	<u>686,322</u>

**ZURICH INSURANCE MALAYSIA BERHAD** (8029-A)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Liquidity Risk (continued)**

**Maturity Profile (continued)**

	<b>Carrying value</b>	<b>Up to a year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>5 - 15 years</b>	<b>Over 15 years</b>	<b>No maturity date</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>31 December 2015</u>								
Financial Assets:								
AFS financial assets	5,665,938	389,511	1,028,784	971,335	4,062,891	1,089,456	485,554	8,027,531
FVTPL financial assets	1,365,618	14,851	33,626	44,136	204,193	67,820	1,142,165	1,506,791
Loans and receivables	433,414	425,603	1,788	1,505	4,465	53	-	433,414
Reinsurance assets	100,527	100,527	-	-	-	-	-	100,527
Insurance receivables	108,272	108,272	-	-	-	-	-	108,272
Other receivables	92,998	92,998	-	-	-	-	-	92,998
Cash and cash equivalents	249,523	249,523	-	-	-	-	-	249,523
	<u>8,016,290</u>	<u>1,381,285</u>	<u>1,064,198</u>	<u>1,016,976</u>	<u>4,271,549</u>	<u>1,157,329</u>	<u>1,627,719</u>	<u>10,519,056</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Liquidity Risk (continued)**

**Maturity Profile (continued)**

	<b>Carrying value</b>	<b>Up to a year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>5 - 15 years</b>	<b>Over 15 years</b>	<b>No maturity date</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>31 December 2015</u>								
Financial Liabilities:								
Insurance contract liabilities:								
- Life insurance	4,348,341	1,209,443	78,770	142,761	244,243	276,462	2,396,662	4,348,341
- General insurance	486,944	270,685	159,137	35,520	21,602	-	-	486,944
Other liabilities	181,367	172,313	8,498	556	-	-	-	181,367
Insurance payables	1,633,380	1,633,380	-	-	-	-	-	1,633,380
Provision for life agents' retirement benefits	629	104	177	179	169	-	-	629
	<u>6,650,661</u>	<u>3,285,925</u>	<u>246,582</u>	<u>179,016</u>	<u>266,014</u>	<u>276,462</u>	<u>2,396,662</u>	<u>6,650,661</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Liquidity Risk (continued)**

The table below summarises the current/non-current classification of assets:

	<b>Current*</b>	<b>Non-current</b>	<b>Unit-linked</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Continuing operations				
<u>31 December 2016</u>				
Property, plant and equipment	-	15,706	-	15,706
Intangible assets	-	4,239	-	4,239
Investment properties	-	303,490	-	303,490
Financial assets:				
- AFS	428,974	4,846,725	-	5,275,699
- FVTPL	554,821	-	841,724	1,396,545
- LAR	372,295	7,457	-	379,752
Reinsurance assets	29,208	-	-	29,208
Insurance receivables	34,801	-	-	34,801
Other receivables	9,397	-	1,799	11,196
Tax recoverable	27,910	-	-	27,910
Deferred tax assets	113	31,354	-	31,467
Cash and cash equivalents	113,930	-	72,447	186,377
Assets of a disposal group classified as held-for-sale	-	1,058,932	-	1,058,932
	<u>1,571,449</u>	<u>6,267,903</u>	<u>915,970</u>	<u>8,755,322</u>
		<b>Current*</b>	<b>Non-current</b>	<b>Total</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Discontinued operations				
<u>31 December 2016</u>				
Property, plant and equipment	-	3,886	-	3,886
Intangible assets	-	3,967	-	3,967
Investment properties	-	11,960	-	11,960
Financial assets:				
- AFS	359,345	381,067	-	740,412
- LAR	79	128	-	207
Reinsurance assets	89,889	-	-	89,889
Insurance receivables	60,547	-	-	60,547
Other receivables	62,085	-	-	62,085
Tax recoverable	3,011	-	-	3,011
Cash and cash equivalents	23,524	-	-	23,524
	<u>598,480</u>	<u>401,008</u>	<u>-</u>	<u>999,488</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Liquidity Risk (continued)**

The table below summarises the current/non-current classification of assets:

	<b>Current*</b>	<b>Non-current</b>	<b>Unit-linked</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>31 December 2015</u>				
Property, plant and equipment	-	23,473	-	23,473
Intangible assets	-	11,137	-	11,137
Investment properties	-	330,437	-	330,437
Financial assets:				
- AFS	658,241	5,007,697	-	5,665,938
- FVTPL	480,194	-	885,424	1,365,618
- LAR	425,603	7,811	-	433,414
Reinsurance assets	100,527	-	-	100,527
Insurance receivables	108,272	-	-	108,272
Other receivables	89,330	-	3,668	92,998
Tax recoverable	32,706	-	-	32,706
Deferred tax assets	235	39,681	-	39,916
Cash and cash equivalents	171,053	-	78,470	249,523
Non-current assets classified as held-for-sale	-	143,102	-	143,102
	<u>2,066,161</u>	<u>5,563,338</u>	<u>967,562</u>	<u>8,597,061</u>

\* Expected recovery or settlement within 12 months from the date of the statement of financial position.

## **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

### **39. FINANCIAL RISK (CONTINUED)**

#### **Market Risk**

Market risk is the risk of loss in the Company investment's valuation due to adverse changes or volatility of prices in economic and financial markets. Market risk comprises three (3) types of risk i.e. currency risk, market interest rates/profit yields and price risk.

The Company manages market risk through setting of investment policy and asset allocation, approving portfolio limit structure and risk management methodologies, approving hedging, and alternative risk transfer strategies. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Company's risk management principles and philosophies. Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework.

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

#### **Currency Risk**

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

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the FSA and hence, primarily denominated in the same currency (the local RM) as its insurance contract liabilities. Thus, the main exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

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

#### **Interest Rates/Profit Yield Risks**

Interest rate risk is part of market risk as any adverse movements in interest rates may affect the Company investment's fair valuation and reinvestment issues to the Company. ALMIC actively monitors such developments as well as discuss changes in maturity profiles of the assets and liabilities to minimise overall mismatch as given the long duration of policy liabilities and the uncertainty of cash flows, it is not possible to hold assets that will perfectly match the policy liabilities.

The Company has no significant concentration of interest rate/profit yield risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact of equity (that reflects adjustments to profit before tax and re-valuing fixed rate/yield AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate/profit yield risk but to demonstrate the impact due to changes in variables, variables had to be changed in an individual basis. It should be noted that movements in these variables are non-linear.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Market Risk (continued)**

**Interest Rates/Profit Yield Risks (continued)**

	<b>Impact on Equity</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Change in variables:		
<u>Interest rate</u>		
+ 100 basis point – loss	(95,975)	(90,166)
- 100 basis point – gain	109,099	101,287

\* Impact on Equity reflects adjustments for tax, where applicable.

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

**Price Risk**

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

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company monitors its equity price risk through regular stress testing. In addition, the Company monitors and manages the equity exposure against investment guidelines set and agreed by ALMIC. These investment guidelines include monitoring the equity exposure against benchmark set and single security exposure of the portfolio against the limits set. The Company uses historical stock betas, index levels and equity prices, and estimates the volatility and correlation of each of these share prices and index levels to calculate the gains and losses that could occur over a period of time, given a certain index level.

The Company may use derivative financial instruments as a means of hedging against the impact of negative market movements on the value of assets in the portfolio so as to reduce and eliminate risks. The Company's policy is to trade in derivatives only to hedge existing financial market risk and not for the purpose of speculation.

In respect of risk associated with the use of derivative financial instruments, price risk is controlled through the settling of exposure limits, which are subjected to detailed monitoring and review.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in profit or loss) and equity (that reflects adjustments to profit before tax and changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**39. FINANCIAL RISK (CONTINUED)**

**Market Risk (continued)**

**Price Risk (continued)**

	<b>Impact on Equity</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Change in variables:		
<u>FTSE Bursa Malaysia</u>		
FBM KLCI + 15% - gain	17,320	22,183
FBM KLCI – 15% - loss	(17,320)	(22,183)

The potential impacts arising from other market indices are deemed insignificant as the Company's holdings in equity securities listed in other bourses are not material.

\* Impact on Equity reflects adjustments for tax, where applicable.

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

**40. OPERATIONAL RISK**

Operational risk arises from inadequate or failed performance of business functions or internal processes. Exposure to this risk can cause deficiencies or breakdowns in internal controls or processes, technology and external events such as interruption of business operations due to a breakdown of IT systems, landslide or flood.

The Company has developed comprehensive Standard Operating Procedures ("SOP") to enable all relevant departments to implement measures, monitor and control the risk in order to avoid or reduce future losses. The Risk Management Department is assigned to facilitate the relevant departments in identifying and evaluating their operational risks and control weaknesses via structured risk assessment process.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**41. COMPLIANCE RISK**

Compliance risk is the risk arising from violations of, or non-conformance with business principles, internal policies and procedures, related laws, rules and regulations (i.e. BNM, Persatuan Insurans Am Malaysia ("PIAM"), Life Insurance Association of Malaysia ("LIAM"), Perbadanan Insurans Deposit Malaysia ("PIDM") ) governing the insurance industry, products and activities.

Consequently, the exposure to this risk can damage the Company's reputation, lead to legal or regulatory sanctions and /or financial loss.

The Legal & Compliance Department is assigned to look into all compliance aspects in observing the regulatory requirements (i.e. BNM, PIAM, LIAM, PIDM). It has developed internal policies and procedures (i.e. Anti-Money Laundering Framework, Introduction of New Products Framework, Outsourcing Framework) to align with the laws and guidelines issued by the authorities.

**42. INSURANCE FUNDS**

The Company's operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products for different markets. The operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company's principal operations are organised into Life insurance, General insurance and Shareholders' segments.

The Life insurance business offers a wide range of participating and non-participating whole life, term assurance, endowments, medical and health riders, annuity products as well as investment-linked products.

The General insurance business offers general insurance products which include motor, fire, marine, aviation and transit ("MAT"), health and surgical and miscellaneous products.

The businesses written for both Life insurance and General insurance are all Malaysian businesses.

As disclosed in Note 12(b), the Directors have approved the proposed disposal of the Company's General Insurance business as required under the FSA.

Accordingly, the statement of financial position, statement of profit or loss and the information as cash flows of the General Insurance Fund have been classified as discontinued operations.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2016**

	<b>Continuing operations</b>			<b>Dis-continued operations</b>
	<b>Life Fund</b>	<b>Share-holders' Fund</b>	<b>Total</b>	<b>General Fund</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>				
Property, plant and equipment	15,706	-	15,706	3,886
Intangible assets	4,239	-	4,239	3,967
Investment properties	208,750	94,740	303,490	11,960
Investments	6,268,960	783,036	7,051,996	740,619
AFS	4,492,663	783,036	5,275,699	740,412
FVTPL	1,396,545	-	1,396,545	-
LAR	379,752	-	379,752	207
Reinsurance assets	29,208	-	29,208	147,836
Insurance receivables	34,801	-	34,801	60,547
Other receivables	14,355	360	14,715	63,582
Tax recoverable	18,755	9,155	27,910	3,011
Deferred tax assets	-	31,467	31,467	-
Cash and cash equivalents	180,462	5,915	186,377	23,524
<b>Total assets</b>	<b>6,775,236</b>	<b>924,673</b>	<b>7,699,909</b>	<b>1,058,932</b>
<b>Equity, policyholders' funds and liabilities</b>				
Share capital	-	579,000	579,000	-
Retained earnings	388,948	427,934	816,882	-
Other reserves	14,955	5,932	20,887	1,385
<b>Total equity</b>	<b>403,903</b>	<b>1,012,866</b>	<b>1,416,769</b>	<b>1,385</b>
Insurance contract liabilities	4,461,662	-	4,461,662	789,987
Deferred tax liabilities	113,592	-	113,592	1,566
Other liabilities	76,461	797	77,258	73,364
Insurance payables	1,683,968	-	1,683,968	116,287
Provision for life agents' retirement benefits	554	-	554	-
Current tax liabilities	8,513	4,317	12,830	9,619
<b>Total liabilities</b>	<b>6,344,750</b>	<b>5,114</b>	<b>6,349,864</b>	<b>990,823</b>
<b>Total equity, policyholders' funds and liabilities</b>	<b>6,748,653</b>	<b>1,017,980</b>	<b>7,766,633</b>	<b>992,208</b>
<b>Inter-fund balances</b>	<b>26,583</b>	<b>(93,307)</b>	<b>(66,724)</b>	<b>66,724</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2015**

	<b>Life Fund</b>	<b>Share- holders' Fund</b>	<b>General Fund</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>				
Property, plant and equipment	19,042	-	4,431	23,473
Intangible assets	6,219	-	4,918	11,137
Investment properties	219,269	99,240	11,928	330,437
Investments	6,054,975	689,531	720,464	7,464,970
AFS	4,268,487	677,194	720,257	5,665,938
FVTPL	1,365,618	-	-	1,365,618
LAR	420,870	12,337	207	433,414
Reinsurance assets	27,539	-	142,615	170,154
Insurance receivables	47,814	-	60,458	108,272
Other receivables	21,198	413	76,947	98,558
Tax recoverable	20,540	9,155	3,011	32,706
Deferred tax assets	-	39,916	-	39,916
Cash and cash equivalents	210,986	15,637	22,900	249,523
Non-current assets classified as held-for-sale	142,882	-	220	143,102
<b>Total assets</b>	<b>6,770,464</b>	<b>853,892</b>	<b>1,047,892</b>	<b>8,672,248</b>
<b>Equity, policyholders' funds and liabilities</b>				
Share capital	-	579,000	-	579,000
Retained earnings	343,569	320,310	-	663,879
Other reserves	6,916	7,425	2,743	17,084
<b>Total equity</b>	<b>350,485</b>	<b>906,735</b>	<b>2,743</b>	<b>1,259,963</b>
Insurance contract liabilities	4,672,409	-	795,805	5,468,214
Deferred tax liabilities	106,610	-	2,293	108,903
Other liabilities	96,153	5,029	80,185	181,367
Insurance payables	1,536,713	-	96,667	1,633,380
Provision for life agents' retirement benefits	629	-	-	629
Current tax liabilities	6,450	5,982	7,360	19,792
<b>Total liabilities</b>	<b>6,418,964</b>	<b>11,011</b>	<b>982,310</b>	<b>7,412,285</b>
<b>Total equity, policyholders' funds and liabilities</b>	<b>6,769,449</b>	<b>917,746</b>	<b>985,053</b>	<b>8,672,248</b>
<b>Inter-fund balances</b>	<b>1,015</b>	<b>(63,854)</b>	<b>62,839</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**STATEMENT OF PROFIT OR LOSS BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Continuing operations			Dis-continued operations
	Life Fund	Share-holders' Fund	Total	General Fund
	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	770,689	-	770,689	666,581
Premiums ceded to reinsurers	(61,091)	-	(61,091)	(139,734)
<b>Net earned premiums</b>	<b>709,598</b>	<b>-</b>	<b>709,598</b>	<b>526,847</b>
Investment income	314,698	32,763	347,461	30,224
Realised gains and losses	(48,295)	(1,623)	(49,918)	(309)
Fair value gains and losses	50,133	6,413	56,546	32
Fee and commission income	6,529	-	6,529	16,179
<b>Other revenue</b>	<b>323,065</b>	<b>37,553</b>	<b>360,618</b>	<b>46,126</b>
<b>Total revenue</b>	<b>1,032,663</b>	<b>37,553</b>	<b>1,070,216</b>	<b>572,973</b>
Gross benefits and claims paid	(992,468)	-	(992,468)	(301,309)
Claims ceded to reinsurers	47,381	-	47,381	22,361
Gross change to contract liabilities	226,399	-	226,399	(9,727)
Change in contract liabilities ceded to reinsurers	(1,007)	-	(1,007)	16,901
<b>Net claims</b>	<b>(719,695)</b>	<b>-</b>	<b>(719,695)</b>	<b>(271,774)</b>
Fee and commission expenses	(110,215)	-	(110,215)	(75,002)
Management expenses	(128,671)	(5,252)	(133,923)	(141,974)
Other operating income/(expenses) – net	23,307	(900)	22,407	3,648
<b>Other expenses</b>	<b>(215,579)</b>	<b>(6,152)</b>	<b>(221,731)</b>	<b>(213,328)</b>
Profit before taxation	97,389	31,401	128,790	87,871
Transfer from/(to):				
- General insurance	-	65,600	65,600	(65,600)
Temporary funding (to)/from	(26,032)	26,032	-	-
Taxation	(25,978)	(15,409)	(41,387)	(22,271)
<b>Net profit for the financial year</b>	<b>45,379</b>	<b>107,624</b>	<b>153,003</b>	<b>-</b>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**STATEMENT OF PROFIT OR LOSS BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

	<b>Continuing operations</b>			<b>Dis-continued operations</b>
	<b>Life Fund</b>	<b>Share-holders' Fund</b>	<b>Total</b>	<b>General Fund</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross earned premiums	794,511	-	794,511	642,539
Premiums ceded to reinsurers	(61,990)	-	(61,990)	(114,589)
<b>Net earned premiums</b>	<b>732,521</b>	<b>-</b>	<b>732,521</b>	<b>527,950</b>
Investment income	278,134	28,655	306,789	28,953
Realised gains and losses	4,111	9,352	13,463	547
Fair value gains and losses	(11,600)	(12)	(11,612)	-
Fee and commission income	4,430	-	4,430	14,818
<b>Other revenue</b>	<b>275,075</b>	<b>37,995</b>	<b>313,070</b>	<b>44,318</b>
<b>Total revenue</b>	<b>1,007,596</b>	<b>37,995</b>	<b>1,045,591</b>	<b>572,268</b>
Gross benefits and claims paid	(879,922)	-	(879,922)	(272,599)
Claims ceded to reinsurers	48,421	-	48,421	24,540
Gross change to contract liabilities	38,850	-	38,850	(40,323)
Change in contract liabilities ceded to reinsurers	(6,882)	-	(6,882)	6,408
<b>Net claims</b>	<b>(799,533)</b>	<b>-</b>	<b>(799,533)</b>	<b>(281,974)</b>
Fee and commission expenses	(108,451)	-	(108,451)	(76,259)
Management expenses	(125,261)	(10,117)	(135,378)	(141,820)
Other operating (expenses)/income – net	(35)	(900)	(935)	6,288
<b>Other expenses</b>	<b>(233,747)</b>	<b>(11,017)</b>	<b>(244,764)</b>	<b>(211,791)</b>
(Loss)/profit before taxation	(25,684)	26,978	1,294	78,503
Transfer from/(to):				
- General insurance	-	62,049	62,049	(62,049)
Temporary funding from/(to)	114,219	(114,219)	-	-
Taxation	(31,843)	19,743	(12,100)	(16,454)
<b>Net profit/(loss) for the financial year</b>	<b>56,692</b>	<b>(5,449)</b>	<b>51,243</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**GENERAL INSURANCE FUND REVENUE ACCOUNT BY CLASSES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

**Discontinued operations**

	<b>Fire</b>	<b>Motor vehicles</b>	<b>Motor cycles</b>	<b>Marine, aviation &amp; transit</b>	<b>Misce- llaneous</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross earned premiums	105,180	263,252	134,875	10,889	152,385	666,581
Premiums ceded to reinsurers	(68,606)	(10,682)	(8,367)	(6,510)	(45,569)	(139,734)
<b>Net earned premiums</b>	<b>36,574</b>	<b>252,570</b>	<b>126,508</b>	<b>4,379</b>	<b>106,816</b>	<b>526,847</b>
Gross commission paid	(7,189)	(30,972)	(12,313)	(708)	(23,820)	(75,002)
Commission received from reinsurers	4,670	1,421	464	576	9,048	16,179
<b>Net commissions</b>	<b>(2,519)</b>	<b>(29,551)</b>	<b>(11,849)</b>	<b>(132)</b>	<b>(14,772)</b>	<b>(58,823)</b>
Gross benefits and claims paid	(21,850)	(205,658)	(35,964)	(5,602)	(32,235)	(301,309)
Claims ceded to reinsurers	7,678	4,884	901	4,190	4,708	22,361
Gross change to contract liabilities	(8,909)	16,576	(11,398)	1,543	(7,539)	(9,727)
Change in contract liabilities ceded to reinsurers	10,732	(188)	637	(1,392)	7,112	16,901
<b>Net claims</b>	<b>(12,349)</b>	<b>(184,386)</b>	<b>(45,824)</b>	<b>(1,261)</b>	<b>(27,954)</b>	<b>(271,774)</b>
Underwriting surplus before management expenses	<u>21,706</u>	<u>38,633</u>	<u>68,835</u>	<u>2,986</u>	<u>64,090</u>	<u>196,250</u>
Management expenses						(141,974)
Underwriting surplus						54,276
Investment income						30,224
Realised losses						(309)
Fair value gains						32
Other operating income - net						3,648
Profit before taxation						87,871
Taxation						(22,271)
<b>Net profit for the financial year</b>						<u>65,600</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**GENERAL INSURANCE FUND REVENUE ACCOUNT BY CLASSES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015**

**Discontinued operations**

	<b>Fire</b>	<b>Motor vehicles</b>	<b>Motor cycles</b>	<b>Marine, aviation &amp; transit</b>	<b>Misce- llaneous</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross earned premiums	90,793	328,034	60,110	13,043	150,559	642,539
Premiums ceded to reinsurers	(56,704)	(9,569)	3,357	(9,356)	(42,317)	(114,589)
<b>Net earned premiums</b>	<b>34,089</b>	<b>318,465</b>	<b>63,467</b>	<b>3,687</b>	<b>108,242</b>	<b>527,950</b>
Gross commission paid	(7,230)	(33,795)	(10,783)	(1,069)	(23,382)	(76,259)
Commission received from reinsurers	5,408	1,167	384	751	7,108	14,818
<b>Net commissions</b>	<b>(1,822)</b>	<b>(32,628)</b>	<b>(10,399)</b>	<b>(318)</b>	<b>(16,274)</b>	<b>(61,441)</b>
Gross benefits and claims paid	(17,670)	(177,532)	(31,217)	(5,384)	(40,796)	(272,599)
Claims ceded to reinsurers	2,090	4,267	782	3,320	14,081	24,540
Gross change to contract liabilities	1,100	(29,558)	(12,552)	3,555	(2,868)	(40,323)
Change in contract liabilities ceded to reinsurers	705	290	(61)	(1,548)	7,022	6,408
<b>Net claims</b>	<b>(13,775)</b>	<b>(202,533)</b>	<b>(43,048)</b>	<b>(57)</b>	<b>(22,561)</b>	<b>(281,974)</b>
Underwriting surplus before management expenses	<b>18,492</b>	<b>83,304</b>	<b>10,020</b>	<b>3,312</b>	<b>69,407</b>	<b>184,535</b>
Management expenses						(141,820)
Underwriting surplus						42,715
Investment income						28,953
Realised gains						547
Other operating income - net						6,288
Profit before taxation						78,503
Taxation						(16,454)
<b>Net profit for the financial year</b>						<b>62,049</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**INVESTMENT-LINKED FUND**

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>		
Investments		
FVTPL	841,724	885,424
Other receivables	1,799	3,668
Cash and cash equivalents	72,447	78,470
<b>Total assets</b>	<b>915,970</b>	<b>967,562</b>
<b>Liabilities</b>		
Deferred tax liabilities	1,246	2,298
Other liabilities	1,577	1,104
Current tax liabilities	919	3,474
<b>Total liabilities</b>	<b>3,742</b>	<b>6,876</b>
<b>Inter-fund balances</b>	<b>(1,537)</b>	<b>(4,499)</b>
<b>Net asset value attributable to unitholders (Note 16)</b>	<b>913,765</b>	<b>965,185</b>

**INVESTMENT-LINKED FUND STATEMENT OF PROFIT OR LOSS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Investment income	32,328	32,135
Realised (losses)/gains	(2,405)	8,277
Fair value losses	(14,652)	(10,117)
	15,271	30,295
Fee and commission expenses	(13,463)	(14,052)
Management expenses	(35)	(35)
Other operating income – net	5,078	198
Surplus before taxation	6,851	16,406
Taxation	1,462	(1,315)
<b>Surplus after taxation for the financial year</b>	<b>8,313</b>	<b>15,091</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)**

**42. INSURANCE FUNDS (CONTINUED)**

**INFORMATION ON CASH FLOWS BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<b>Continuing operations</b>			<b>Dis-continued operations</b>
	<b>Life Fund</b>	<b>Share-holders' Fund</b>	<b>Total</b>	<b>General Fund</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>				
Cash flows from:				
Operating activities	(29,175)	(9,722)	(38,897)	1,819
Investing activities	(1,349)	-	(1,349)	(1,195)
Net (decrease)/increase in cash and cash equivalents	(30,524)	(9,722)	(40,246)	624
Cash and cash equivalents:				
At beginning of the financial year	210,986	15,637	226,623	22,900
At end of the financial year	180,462	5,915	186,377	23,524
	<b>Life Fund</b>	<b>Share-holders' Fund</b>	<b>General Fund</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2015</b>				
Cash flows from:				
Operating activities	(114,962)	10,973	(21,290)	(125,279)
Investing activities	(4,462)	-	(5,195)	(9,657)
Net (decrease)/increase in cash and cash equivalents	(119,424)	10,973	(26,485)	(134,936)
Cash and cash equivalents:				
At beginning of the financial year	330,410	4,664	49,385	384,459
At end of the financial year	210,986	15,637	22,900	249,523

