

# Report And Statutory Financial Statement

31 December 2018



## About Zurich Life Insurance in Malaysia

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Zurich Life Insurance Malaysia Berhad (ZLIMB), as part of Zurich Insurance Group, is an established life insurer headquartered in Kuala Lumpur. Through its diverse range of life insurance products, ZLIMB provides protection, medical and health, savings and investments solutions to address its customers' financial security needs. Together with its dedicated employees, agency force, distributors and partners, supported by more than 25 branches nationwide, ZLIMB is committed to help its customers understand and protect themselves from risks. Additionally, shariah-compliant family takaful solutions are made available to customers through its sister company, Zurich Takaful Malaysia Berhad.

Company No.

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## **ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

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**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**CORPORATE GOVERNANCE****Introduction**

Zurich Life Insurance Malaysia Berhad ("the Company") is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability.

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.

**Roles and responsibilities of the Board**

The Board is responsible for the overall governance of the Company by providing guidance, including setting the 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.

**Composition of the Board**

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

Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	Chairman (Non-Independent Non-Executive Director)
Choy Khai Choon	Chairman (Independent Non-Executive Director) (Effective 13 October 2018)
Philip Wallace Smith (Resigned on 1 October 2018)	Member (Chief Executive Officer/Executive Director)
Stephen Clark (Appointed on 1 October 2018)	Member (Chief Executive Officer/Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Kevin John Wright	Member (Independent Non-Executive Director)

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. The roles and activities of the Chairman and the Chief Executive Officer are distinct and separate.

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.

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**CORPORATE GOVERNANCE (CONTINUED)****Profile of Directors and Chief Executive Officer****Choy Khai Choon**

Malaysian

Independent Non-Executive Director/Chairman

Member of the Audit Committee

Member of Board Investment Committee

Member of Risk Management Committee

Member of Nomination and Remuneration Committee

Mr Choy Khai Choon graduated with Bachelor of Commerce degree from the University of New South Wales, Australia and holds a Master in Business Administration (MBA) from Oklahoma City University, USA. Mr Choy is a member of Malaysian Institute of Accountants and a Fellow of the Australian Certified Public Accountant.

Mr Choy served as the President and Chief Executive Officer ("CEO") of Cagamas Berhad from year 2006 to 2012 and was appointed director of Cagamas MBS Berhad, Cagamas SME Berhad, BNM Sukuk Berhad, Cagamas HKMC Berhad and Cagamas SRP Berhad.

Prior to joining Cagamas Berhad, Mr Choy held key positions in leading financial institutions in the areas of financial management, strategic planning and business development. Key roles held include serving as Regional Finance/Planning Director of Aviva Insurance Asia, CEO of Morley Fund Management Ltd, Aviva Insurance Group, Singapore and Senior General Manager, Group Head of RHB Berhad.

Mr Choy is currently an Independent Director of Deutsche Bank (Malaysia) Berhad, Malaysia Marine and Heavy Engineering Holdings Berhad, RAM Rating Services Berhad, Zurich Takaful Malaysia Berhad, Asian Banking School Sdn Berhad and Hap Seng Plantations Holdings Berhad. Mr Choy is also a Board Member of Bond & Sukuk Information Platform Sdn Bhd, a wholly owned subsidiary of the Securities Commission.

**Stephen Clark**

British

Chief Executive Officer &amp; Executive Director

Mr Stephen Clark was educated in the United Kingdom and received his Masters in Business Administration (Major in Marketing) from City University, London in 1997.

Mr Clark was appointed as the Chief Executive Officer ("CEO")/Executive Director of the Company upon obtaining approval from Bank Negara Malaysia on 1 October 2018.

Mr Clark is an experienced insurance professional with vast work experience in the financial services sector in Asia Pacific and possesses a high degree of familiarity with the South East Asia market. Mr Clark has over 17 years of experience in the Life and General Insurance businesses, over 11 years of which as the CEO of various insurance companies and subsidiaries. Mr Clark has in-depth experience in setting up and running multi-channel life insurance ventures. With solid executive management and cross-functional experience, Mr Clark is capable of performing in a broad range of executive, financial and commercially oriented positions. He has managed strategic development and execution, business development, sales, management of operations as well as team development and leadership.

Mr Clark is, additionally, the Non-Independent Executive Director of Zurich Takaful Malaysia Berhad. He also sits on the Board of Zurich Holdings Malaysia Berhad, a wholly-owned subsidiary of Zurich Insurance Company Ltd.

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**CORPORATE GOVERNANCE (CONTINUED)****Profile of Directors and Chief Executive Officer (continued)****Hasnah Binti Omar**

Malaysian

Independent Non-Executive Director

Chairman of the Risk Management Committee

Member of the Audit Committee

Member of Nomination and Remuneration Committee

Member of Board Investment Committee

Cik Hasnah binti Omar graduated and received her BA (Hons) from University of Malaya in 1981 and holds a Master in Public Administration from Harvard University, USA in 1991. Cik Hasnah also holds a Master in Banking Law (Islamic and Conventional) from International Islamic University of Malaysia in 2010.

Cik Hasnah has vast experience in finance, banking and capital market having worked in various capacities with Bank Negara Malaysia ("BNM"), Securities Commission ("SC"), and the Asian Development Bank ("ADB"), Manila, Philippines.

Cik Hasnah joined BNM in 1981, where she largely worked in the Bank Examination Department of BNM which was responsible for the examinations of commercial banks, merchant banks, discount houses and finance companies. Cik Hasnah led the examinations of a number of financially distressed banks during 1980s and served as the Head of Public Affairs Unit of the Bank for about a year, assisting Governor and Senior Management in managing the press and public perception of BNM's policies.

Cik Hasnah worked with SC from 1991 until 2013, culminating her career in SC as the Director of Market Oversight Business Group. Cik Hasnah was actively involved in the Brokers Monitoring System during the Asian Market Crisis 1997/1998 and was responsible for the formulation and implementation of the Compliance Function Framework for the industry, as well as the formulation of Risk-based Capital for stockbroking companies. Cik Hasnah was primarily responsible for the formulation and implementation of Brokers' Consolidation Policy and together with BNM contributed to the formulation of regulatory framework for Investment Banks. Cik Hasnah represented SC as a member of Financial Stability Committee of Financial Services Authority of Labuan ("FSA") and as a Board Member of Capital Market Compensation Fund.

Cik Hasnah spent two years, from January 2009 to December 2010 with the Asian Development Bank in Manila on a secondment basis. Among others, she advised ADB on Islamic finance matters, she was a Mission Leader for the Financial Sector and Capital Markets Sovereign Loan Program and Technical Assistance ("TA") for Vietnam, and involved in sovereign loan programs and TA for Thailand, Indonesia, and Philippines. Cik Hasnah was a Co-Mission Leader for the ASEAN Regional Capital Markets Integration TA. She returned to serve the SC in January 2011 until 2013.

Cik Hasnah currently sits on the Board of Malaysian Industrial Development Finance Berhad ("MIDF"), MIDF Amanah Assets Management Berhad, and Zurich Takaful Malaysia Berhad. She also serves as a member of the Appeals Committee of the Securities Industry Dispute Resolution Centre since 2015.

## ZURICH LIFE INSURANCE MALAYSIA BERHAD

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### CORPORATE GOVERNANCE (CONTINUED)

#### Profile of Directors and Chief Executive Officer (continued)

##### **Datin Joan Hoi Lai Ping**

Malaysian

Independent Non-Executive Director

Chairperson of Nomination and Remuneration Committee & Audit Committee

Member of Risk Management Committee

Member of Board Investment Committee

Datin Joan Hoi Lai Ping graduated with a Bachelor of Economics from Monash University, Victoria, Australia in 1983.

Datin Joan Hoi was a former Partner of Accenture, specializing in Change Management and the financial services industry. Datin Joan Hoi joined Accenture in year 1994 as a Manager and was promoted to be an Associate Partner in year 1999 and made Partner in year 2005. She retired from Accenture in March 2009 after 15 years.

Datin Joan Hoi served as the Head of the Finance Service Human Performance Service Line in ASEAN from year 2000 and Lead for Talent and Organization Performance in Kuala Lumpur from year 2005. During her time with Accenture, Datin Joan Hoi worked with organizations to implement different types of change such as merger integration, group organisation structure changes including designing of group wide organization structure, designation and implementation of new business operating models for commercial and corporate banking, bank branches, trade finance, collections, sales and marketing functions, creation of Human Resource shared services for an airline, reengineering of business functions/customer segments in banks, sales force effectiveness, and learning centers. Besides Malaysia, Datin Joan Hoi has also worked with organizations in Australia, Indonesia and assisted projects in Portugal, Singapore, Korea and China.

Datin Joan Hoi was in the banking industry 11 years prior to joining Accenture, working with Hong Leong Finance and the Commonwealth Bank of Australia. As a banker, Datin Joan Hoi evaluated property development projects, managed loan syndications, managed the credit department, the regional office overseeing branches, business banking, corporate banking, implemented risk rating, centralization and underwent two mergers.

Datin Joan Hoi is the Author of "Take on Change" a management book launched in Malaysia in June 2012 which provides valuable insights and perspectives on managing change effectively. She serves as a Mentor in a leadership development programme run by ICAEW (Institute of Chartered Accountant England and Wales) from 2013 – 2018.

Datin Joan Hoi is also an Independent Director of FGV Holdings Berhad, a company listed on Bursa Malaysia.



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### CORPORATE GOVERNANCE (CONTINUED)

#### Profile of Directors and Chief Executive Officer (continued)

##### Mr Kevin John Wright

Australian

Independent Non-Executive Director

Chairman of Board Investment Committee

Member of Audit Committee

Member of Risk Management Committee

Member of Nomination and Remuneration Committee

Mr Wright has vast experience in the financial services sector in New Zealand and Australia as well as South East Asia covering Malaysia, Indonesia, Singapore, Thailand, Philippines, Hong Kong and India. Mr Wright possesses a high degree of familiarity with other Asia Pacific markets such as South Korea and Japan. Mr Wright has over 34 years' experience in Life and Non-Life Insurance, 15 years of which were in international markets with a focus on South East Asia, Asia Pacific and India.

Mr Wright has solid executive management with cross-functional experience in Development, Management of operations, Strategic Planning and execution, Business and Financial Management, Relationship Building, Organizational Leadership, Customer Relationship Management and Team Development & Leadership, capable of performing in a broad range of executive, financial and commercially oriented positions.

Mr Wright has held a number of diverse roles in other financial institutions including the Chief Executive Officer ("CEO") South East Asia and India of AXA Asia and responsible for operations in Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore and Thailand between years 2011 to 2014. Mr Wright also served as a Board Member for all the above mentioned countries and Member of Regional Executive Committee of AXA Asia. Prior to this he held various other senior executive roles within Australia and Asia Pacific region.

Mr Wright currently serves as an Independent Director at Zurich General Insurance Malaysia Berhad, Zurich Australia Limited and Zurich Australian Insurance Limited.

#### Directors' Training

The Directors are encouraged to attend programmes and seminars to keep abreast with the latest developments in the industry and marketplace and to enhance the discharge of their duties. The training programmes attended by the Directors during the financial year ended 31 December 2018 included areas of leadership, governance, risk management, finance, investment, insurance related matters and information technology.



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**CORPORATE GOVERNANCE (CONTINUED)****Board Meetings**

The Board is scheduled to meet at least six (6) times a year with additional meetings being convened as necessary. For the financial year ended 31 December 2018, the Board met eleven (11) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings held during the financial year ended 31 December 2018.

The number of meetings attended by each member of the Board during the financial year ended 31 December 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	8/8
Choy Khai Choon	11/11
Philip Wallace Smith (Resigned on 1 October 2018)	8/8
Stephen Clark (Appointed on 1 October 2018)	3/3
Datin Joan Hoi Lai Ping	11/11
Hasnah binti Omar	11/11
Kevin John Wright	10/11

**Board Committees**

The Board has established numbers of Board Committees and Senior Management Committees.

Each Committee operates within defined terms of reference. Board Committees are the Audit Committee, the Nomination and 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. The Board Committees are chaired by a Non-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:

Datin Joan Hoi Lai Ping	Chairman (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	Member (Non-Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Kevin John Wright	Member (Independent Non-Executive Director)

On 13 October 2018, Datin Joan Hoi Lai Ping became the Chairman of Audit Committee in replacement of Choy Khai Choon who took on the position of Chairman of the Board of Directors.

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.

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**CORPORATE GOVERNANCE (CONTINUED)****Audit Committee (Continued)**

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.

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 Audit Committee meets at least once every quarter, or more frequently as circumstances dictate. During the financial year ended 31 December 2018, the Audit Committee held seven (7) 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 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Datin Joan Hoi Lai Ping	7/7
Choy Khai Choon	7/7
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	5/5
Hasnah binti Omar	7/7
Kevin John Wright	7/7

During the financial year ended 31 December 2018, 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.

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.

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**CORPORATE GOVERNANCE (CONTINUED)****Nomination and Remuneration Committee**

The members of the Nomination and Remuneration Committee are as follows:

Datin Joan Hoi Lai Ping	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	Member (Non-Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Kevin John Wright	Member (Independent Non-Executive Director)

The Nomination and Remuneration Committee is made up of a majority of Independent Non-Executive Directors. In considering the right candidate for appointment to the Board, the Nomination and Remuneration 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 and Remuneration Committee is also responsible for the annual review of the effectiveness of the Board and individual Directors.

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

- (i) To develop and recommend a formal, clear and transparent remuneration policy and framework for fixing the remuneration for Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) of the Company. The remuneration policy and practices shall:
  - (a) be documented and approved by the Board of Directors of the Company and be subject to periodic Board review, including when material changes are made to the remuneration policy;
  - (b) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and key senior officers (including the expatriates, if any);
  - (c) be sufficient to attract and retain Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) 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.
- (ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) of the Company. The remuneration packages shall:
  - (a) be based on an objective consideration and approved by the Board of Directors;
  - (b) take due consideration of the assessment of the Regional/Group Remuneration Team on the effectiveness, level of contribution such as effort and time spent and responsibilities of the Directors, the Chief Executive Officer and key senior officers (including the expatriates, if any) in discharging their duties for the benefits of the Company and of the Group;
  - (c) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
  - (d) be competitive and does not induce excessive risk-taking and is consistent with the Company's culture, objective, risk appetite and long term strategy.

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**CORPORATE GOVERNANCE (CONTINUED)****Nomination and Remuneration Committee (continued)**

- (iii) To ensure that the remuneration for individuals within the Company be aligned with prudent risk-taking and appropriately adjusted for risks. The remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that:
- (a) the remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement;
  - (b) the size of the bonus pool is linked to the overall performance of the Company;
  - (c) incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Company;
  - (d) bonuses are not guaranteed, except in the context of sign-on bonuses;
  - (e) for members of senior management and other material risk takers:
    - i. a portion of remuneration consists of variable remuneration to be paid on the basis of individual, business-unit and institution-wide measures that adequately assess performance; and
    - ii. the variable portion of remuneration increases along with the individual's level of accountability.
- (iv) To undertake and perform such other matters/activities according to the application requirements in the guidelines from Bank Negara Malaysia and/or as the Board of Directors think fit.

The number of meetings attended by each member of the Nomination and Remuneration Committee during the financial year ended 31 December 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Datin Joan Hoi Lai Ping	6/6
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	5/5
Choy Khai Choon	6/6
Hasnah binti Omar	6/6
Kevin John Wright	6/6

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

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**CORPORATE GOVERNANCE (CONTINUED)****Risk Management Committee**

The members of the Risk Management Committee are as follows:

Hasnah binti Omar	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	Member (Non-Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Kevin John Wright	Member (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 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Hasnah binti Omar	6/6
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	4/4
Choy Khai Choon	6/6
Datin Joan Hoi Lai Ping	6/6
Kevin John Wright	6/6

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**CORPORATE GOVERNANCE (CONTINUED)****Board Investment Committee**

The members of the Board Investment Committee are as follows:

Choy Khai Choon	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	Member (Non-Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Datin Joan Hoi Lai Ping	Member (Independent Non-Executive Director)
Kevin John Wright	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 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Choy Khai Choon	2/2
Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)	1/1
Hasnah binti Omar	2/2
Datin Joan Hoi Lai Ping	2/2
Kevin John Wright	2/2

## **ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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### **CORPORATE GOVERNANCE (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.

#### **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.



## **ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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

#### **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 six (6) risk types affecting the Company namely Life Insurance Risk, Market Risk, Credit Risk, Operational Risk, Strategic and Reputation Risk and Capital Management / Liquidity Risk.

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.

#### **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.

#### **Remuneration Policy**

The Company's remuneration policy is based on Zurich Insurance Group Limited (“ZIGL”)’s remuneration philosophy. The Company operates a balanced and effectively managed remuneration system, which is aligned with risk considerations and provides for competitive total remuneration opportunities to attract, retain, motivate and reward employees to deliver outstanding performance.

The remuneration system is also an important element of the risk management framework and is designed to not encourage inappropriate risk taking through effective governance and a clearly defined performance management process which supports the overall business strategy and plans. Aligned with the Company's corporate governance standards, there are separate responsibilities for the business planning and performance management process and for the implementation of the remuneration system.

The Board of Directors reviews and approves the remuneration rules regularly, at least once a year, and amends them, as necessary, from time to time. The Board of Directors may approve amendments to the remuneration architecture in general or to the applicable plans including exceptions to the short-term incentive plan and/or performance periods and related retention periods.

With respect to the regular review and the oversight of the implementation of the Remuneration Rules, the Board of Directors is supported by the Nomination and Remuneration Committee and respective monitoring process.

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**CORPORATE GOVERNANCE (CONTINUED)****Remuneration Policy (continued)**

The guiding principles of the remuneration philosophy as set out in the Company's Remuneration Rules are as follows:

- The remuneration architecture is simple, transparent and can be put into practice
- Remuneration is tied to long-term results for individuals who have a material impact on the Company's risk profile
- The structure and level of total remuneration are aligned with the Company's risk policies and risk-taking capacity
- A high performance culture is promoted by differentiating total remuneration based on the relative performance of business and individuals
- Expected performance is clearly defined 'through a structured system of performance management and this is used as the basis for remuneration decision
- Variable remuneration awards are linked to key performance factors which include the performance of the Company, business units, functions, as well as individual achievements
- The Company's Short Term Incentive Plan ("STIP") and Long Term Incentive Plan ("LTIP") used for variable remuneration, are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with its long term economic performance
- The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration
- Employees are provided with a range of benefits based on local market policies, taking into account the ZICL's risk capacity on pension funding and investments.

Total remuneration and its composition may be influenced by factors such as scope and complexity of the role, level of responsibility, risk exposure, business performance and affordability, individual performance, internal equity, and legal requirements.

Total remuneration can include elements of base salary and variable remuneration.

- Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed regularly. Overall base salary structures are positioned to manage salaries around the relevant market medians. Key factors to be taken into account are the individual's overall experience and performance.
- The variable remuneration architecture is aligned with the achievement of the key financial objective and the execution of the business strategy, risk management framework and operational plans, via short-term and long-term incentive plans. The plan designs are reviewed regularly by the Nomination and Remuneration Committee and the Board of Directors. The incentive plans are discretionary and can be terminated, modified, changed or revised, at any time, except for previously awarded grants.
- Variable remuneration is structured such that on average there is a higher weighting towards the longer term sustainable performance for the most senior employees of the Company, including the individuals with the most impact on the Company's risk profile for the key takers. This ensures that a significant portion of the variable pay for the senior group is deferred to promote the risk awareness of the participants and to encourage the participants to operate the business in a sustainable manner.

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(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 2018.

**PRINCIPAL ACTIVITIES**

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

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

**FINANCIAL RESULTS**

RM'000

Net loss for the financial year

(24,242)**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, other than the transfer of general insurance business as disclosed in Note 12(b) to the financial statements.

**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.

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)****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:

Choy Khai Choon

Datin Joan Hoi Lai Ping

Hasnah binti Omar

Kevin John Wright

Stephen Clark (Appointed on 1 October 2018)

Tan Sri Ahmad bin Mohd Don (Retired on 13 October 2018)

Philip Wallace Smith (Resigned on 1 October 2018)

**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 25 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.

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.

**INSURANCE AND INDEMNITY COST**

The Company, through its ultimate holding company, Zurich Insurance Group Ltd. ("ZIGL") has maintained a Directors' and Officers Liability Insurance ("Group's D&O Insurance") on a group basis up to an aggregate limit of USD350 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Company has also placed a Directors' and Officers' Liability Insurance with a local insurer up to the deductible amount under the Group's D&O Insurance. The Directors and Officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

The total amount paid and payable for indemnity insurance effected for the Directors of the Company for the financial year amounting to RM13,399.

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

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(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 deferred/restricted/performance share units</u>					
	<u>At date of appointment</u>	<u>Granted/ reinvested dividends</u>	<u>Vested</u>	<u>Cancelled</u>	<u>At 31.12.2018</u>
<u>Units in Zurich Insurance Group Ltd.</u>					
Direct interest:					
Stephen Clark	2,789	-	-	-	2,789

Zurich Insurance Group Ltd. ("ZIGL"), the immediate holding company of Zurich Insurance Company Ltd. ("ZICL") 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 ZIGL 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.

**DIRECTORS' REMUNERATION**

Details of Directors' remuneration are set out in Note 25 to the financial statements.

**AUDITORS' REMUNERATION**

Details of auditors' remuneration are set out in Note 25 to the financial statements. There is no indemnity given to or insurance affected for any auditor of the Company.

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**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 LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

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

#### **SIGNIFICANT EVENTS**

Details of significant 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 PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 29 March 2019. Signed on behalf of the Board of the Directors:



STEPHEN CLARK  
DIRECTOR



CHOY KHAI CHOON  
DIRECTOR

Kuala Lumpur  
29 March 2019



Company No.

8029	A
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## **ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

### **STATEMENT BY DIRECTORS**

### **PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016**

We, Stephen Clark and Choy Khai Choon, two of the Directors of Zurich Life Insurance Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 26 to 171 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of their 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, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 29 March 2019.



STEPHEN CLARK  
DIRECTOR



CHOY KHAI CHOON  
DIRECTOR

Kuala Lumpur  
29 March 2019

Company No.

8029

A

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**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 Life Insurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 26 to 171 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.

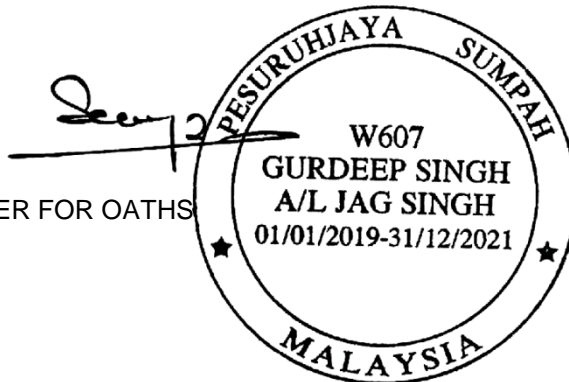


TANG LOON KHOON

Subscribed and solemnly declared by the abovenamed Tang Loon Khoon at Kuala Lumpur in the Federal Territory on 29 March 2019.

Before me,

COMMISSIONER FOR OATHS



5B, JALAN RAKYAT  
( JALAN TRAVERS )  
BRICKFIELDS  
50470 KUALA LUMPUR



**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBER OF ZURICH LIFE 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 Life Insurance Malaysia Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2018, and of the financial performance and the 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 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 26 to 171.

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 LIFE 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 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF ZURICH LIFE 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 of the Company represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF ZURICH LIFE 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.

OTHER MATTERS

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

A handwritten signature in black ink, appearing to read 'Price Waterhouse Coopers PLT'.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

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

SHIRLEY GOH  
01778/08/2020 J  
Chartered Accountant

Kuala Lumpur  
29 March 2019

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

	Note	31.12.2018 RM'000	31.12.2017 RM'000
<b>ASSETS</b>			
Property, plant and equipment	4	29,490	17,186
Intangible assets	5	2,756	4,525
Investment properties	6	257,700	258,250
Investments	7	7,023,233	7,084,531
Available-for-sale financial assets		4,916,754	5,100,500
Financial assets at fair value through profit or loss		1,797,022	1,631,552
Loans and receivables	8	309,457	352,479
Reinsurance assets	9	31,729	33,169
Insurance receivables	10	31,693	31,879
Other receivables	11	38,200	22,487
Tax recoverable		12,612	9,705
Deferred tax assets	13	57,277	33,294
Cash and cash equivalents		243,033	271,464
Non-current assets classified as held-for-sale	12(a)	550	-
Assets of a disposal group classified as held-for-sale:			
- assets in a unit trust fund controlled by the Company	12(b)(i)	-	709,553
- other assets	12(b)(ii)	-	486,458
Assets held for distribution to the shareholders	12(c)	-	106,300
<b>Total assets</b>		<b>7,728,273</b>	<b>9,068,801</b>
<b>EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES</b>			
Share capital	14	579,000	579,000
Retained earnings	15(a)	683,783	932,817
Other reserves	15(b)	36,309	36,220
Reserves of a disposal group classified as held-for-sale	12(b)(iii)	-	9,646
<b>Total equity</b>		<b>1,299,092</b>	<b>1,557,683</b>
Insurance contract liabilities	16	4,436,963	4,471,684
Deferred tax liabilities	13	118,749	125,399
Other liabilities	17	81,402	77,060
Insurance payables	18	1,784,449	1,761,124
Current tax liabilities		7,618	8,012
Liabilities of a disposal group classified as held-for-sale :			
- liabilities in a unit trust fund controlled by the Company	12(b)(i)	-	287
- other liabilities	12(b)(iv)	-	1,067,552
<b>Total liabilities</b>		<b>6,429,181</b>	<b>7,511,118</b>
<b>Total equity, policyholders' funds and liabilities</b>		<b>7,728,273</b>	<b>9,068,801</b>

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



**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	Note	2018 RM'000	2017 RM'000
<b>Continuing operations</b>			
Gross earned premiums	19(a)	786,381	782,759
Premiums ceded to reinsurers	19(b)	(58,407)	(60,831)
<b>Net earned premiums</b>		<u>727,974</u>	<u>721,928</u>
Investment income	20	333,268	334,168
Realised gains and losses	21	23,117	8,295
Fair value gains and losses	22	(170,024)	95,948
Fee and commission income	23(a)	<u>5,866</u>	<u>6,263</u>
<b>Other revenue</b>		<u>192,227</u>	<u>444,674</u>
<b>Total revenue</b>		<u>920,201</u>	<u>1,166,602</u>
Gross benefits and claims paid	24(a)	(773,774)	(890,495)
Claims ceded to reinsurers	24(b)	51,361	47,310
Gross change to contract liabilities	24(c)	27,145	6,633
Change in contract liabilities ceded to reinsurers	24(d)	<u>(1,440)</u>	<u>3,942</u>
<b>Net claims</b>		<u>(696,708)</u>	<u>(832,610)</u>
Fee and commission expenses	23(b)	(115,615)	(113,332)
Management expenses	25	(132,029)	(126,914)
Other operating (expenses)/income - net	26	<u>(2,659)</u>	<u>(2,005)</u>
<b>Other expenses</b>		<u>(250,303)</u>	<u>(242,251)</u>
(Loss)/profit before taxation from continuing operations		(26,810)	91,741
Taxation	27	<u>2,568</u>	<u>(28,698)</u>
<b>Net (loss)/profit for the financial year from continuing operations</b>		<u>(24,242)</u>	<u>63,043</u>
<b>Discontinued operations:</b>			
Net profit for the financial year from discontinued operations	41	<u>-</u>	<u>52,892</u>
<b>Net (loss)/profit for the financial year</b>		<u><u>(24,242)</u></u>	<u><u>115,935</u></u>
<b>Basic/diluted (deficit)/earnings per share (sen)</b>	29		
Continuing operations		(4.19)	10.89
Discontinued operations		<u>-</u>	<u>9.13</u>
		<u>(4.19)</u>	<u>20.02</u>

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

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	Note	2018 RM'000	2017 RM'000
<b>Net (loss)/profit for the financial year</b>		(24,242)	115,935
<b>Other comprehensive income/(loss):</b>			
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 arising during the financial year		10,451	56,900
- Gross fair value transferred to statement of profit or loss	21	(18,421)	(11,541)
- Deferred tax	13	482	(5,110)
Net (loss)/gains		(7,488)	40,249
Change in insurance contract liabilities arising from net fair value changes	16(a)	7,577	(16,655)
Other comprehensive income for the financial year, net of tax		89	23,594
Comprising:			
Continuing operations		89	15,333
Discontinued operations		-	8,261
		89	23,594
<b>Total comprehensive (loss)/income for the financial year</b>		(24,153)	139,529
Comprising:			
Continuing operations		(24,153)	78,376
Discontinued operations		-	61,153
		(24,153)	139,529

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

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

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

	Issued and fully paid ordinary shares		Non-distributable			Retained earnings			
	Numbers of shares	Share capital	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	Total
	'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2018	579,000	579,000	25,092	11,128	9,646	417,772	515,045	932,817	1,557,683
Net profit/(loss) for the financial year	-	-	-	-	-	24,928	(49,170)	(24,242)	(24,242)
Other comprehensive income/(loss) for the financial year	-	-	89	-	-	-	-	-	89
Distribution to Shareholders	-	-	-	-	(9,646)	-	(224,792)	(224,792)	(234,438)
At 31 December 2018	<u>579,000</u>	<u>579,000</u>	<u>25,181</u>	<u>11,128</u>	<u>-</u>	<u>442,700</u>	<u>241,083</u>	<u>683,783</u>	<u>1,299,092</u>
At 1 January 2017	579,000	579,000	9,759	11,128	1,385	388,948	427,934	816,882	1,418,154
Net profit for the financial year	-	-	-	-	-	28,824	87,111	115,935	115,935
Other comprehensive income for the financial year	-	-	15,333	-	8,261	-	-	-	23,594
At 31 December 2017	<u>579,000</u>	<u>579,000</u>	<u>25,092</u>	<u>11,128</u>	<u>9,646</u>	<u>417,772</u>	<u>515,045</u>	<u>932,817</u>	<u>1,557,683</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 2018 (2017: Nil).

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

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 RM'000	2017 RM'000
<b>OPERATING ACTIVITIES</b>			
Cash utilised in operating activities	30	(323,025)	(220,175)
Dividend/distribution income received		61,981	53,108
Interest/profit income received		269,291	270,583
Rental income on investment properties received		6,005	7,937
Income tax paid		(30,753)	(17,316)
Net cash (outflows)/ inflows from operating activities		<u>(16,501)</u>	<u>94,137</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		7,899	-
Purchase of property, plant and equipment	4	(19,690)	(4,627)
Purchase of intangible assets	5	<u>(139)</u>	<u>(2,342)</u>
Net cash outflows from investing activities		<u>(11,930)</u>	<u>(6,969)</u>
Net (decrease)/increase in cash and cash equivalents		(28,431)	87,168
Cash and cash equivalents at the beginning of the financial year		271,464	186,377
Transfer to assets held for distribution to the shareholders	12(c)	<u>-</u>	<u>(2,081)</u>
<b>Cash and cash equivalents at the end of the financial year</b>		<u><b>243,033</b></u>	<u><b>271,464</b></u>
<b>Cash and cash equivalents comprise:</b>			
Cash and bank balances		<u>243,033</u>	<u>271,464</u>

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

## ZURICH LIFE INSURANCE MALAYSIA BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018

#### 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

Level 25, Mercu 3  
No.3 Jalan Bangsar  
KL Eco City  
59200 Kuala Lumpur

##### Principal place of business

Level 23A, Mercu 3  
No.3 Jalan Bangsar  
KL Eco City  
59200 Kuala Lumpur

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

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

ZIGL 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 2019.

#### 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, 2016 in Malaysia.

The financial statements for the financial year ended 31 December 2017 include the consolidation of a unit trust fund controlled by the Company referred to in Note 12(b)(i).

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.

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 2018 are as follows:

- MFRS 9 "Financial Instruments" replaces 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 contractual 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 losses model on impairment for certain financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

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

- MFRS 15 “Revenue from Contracts with Customer” replaces MFRS 118 “Revenue” and MFRS 111 “Construction Contracts”. It establishes the principles that are applied when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer.

MFRS 15 does not apply to revenues relating to insurance contracts, lease contracts and financial instruments. Based on the analysis performed by the Company, there is no material impact on the Company’s financial position or performance.

- Amendments to MFRS 2 “Share-based Payment – Classification and Measurement of Share-based Payment Transactions”
- Amendments to MFRS 4 – Applying MFRS 9 “Financial Instruments” with MFRS 4 “Insurance Contracts” includes certain provisions to allow entities which are predominantly operating as an insurance business 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 17 “Insurance Contracts”, the related liabilities from insurance contracts are often measured on amortised cost basis.

The Company’s business activity is predominantly insurance and hence, qualifies for the temporary exemption approach. Consequently, management has decided to apply the temporary exemption from MFRS 9 from its annual period beginning 1 January 2018 and will adopt MFRS 9 for its annual period beginning 1 January 2021 when MFRS 17 becomes effective.

- Amendments to MFRS 140 “Investment Property – Transfers of Investment Property” clarifies 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 meets, 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.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

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

- IC Interpretation 22 “Foreign Currency Transactions and Advance Consideration” applies when an entity recognises non-monetary asset and 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 transaction’ to record foreign currency transaction.

IC Interpretation 22 provides guidance on how to determine ‘the date of transaction’ when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

Other than that, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 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 profit or loss.

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

MFRS 16 “Leases” will have an impact on the accounting for contracts where the Group acts as a lessee (and intermediate lessor), especially on real estate rental contracts, resulting in recognition of almost all leases on the balance sheet. The Company will apply the modified retrospective approach for transition to MFRS 16 and make use of the optional exemption for short-term leases and leases of low-value assets. Based on the volume of in-force non-cancellable operating leases as at 31 December 2018 (see Note 32) the recognition of a right-of-use asset and a corresponding discounted lease liability under MFRS 16 would result in an increase of both assets and liabilities of less than RM 36 million. Going forward, the finance expense from the lease liability will have a front-loaded effect, whereas the depreciation of the right-of-use asset is typically recognised on the straight-line basis. Both changes will have no material impact to profit or loss.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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)

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

- IC Interpretation 23 “Uncertainty over Income Tax Treatments” provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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)

**(a) Effective from financial year beginning on or after 1 January 2019 (continued)**

- Amendments to MFRS 9 “Prepayment features with negative compensation” allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a ‘held to collect’ business model.

The amendments will be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:
  - Amendments to MFRS 3 “Business Combinations” clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.
  - Amendments to MFRS 112 “Income Taxes” clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.
  - Amendments to MFRS 119 “Plan amendment, curtailment or settlement” requires an entity to use the updated actuarial assumptions from remeasurement of its net defined benefit liability or asset arising from plan amendment, curtailment or settlement, to determine current service cost and net interest for the remaining period after the change to the plan. The amendments will be applied prospectively.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 2021

- MFRS 17 “Insurance Contracts” replaces MFRS 4 “Insurance Contracts”.

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

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

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 2021

Alternative measurement models are provided for the different insurance coverages:

- Simplified Premium Allocation Approach if the insurance coverage period is a year or less; and
- Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

Other than MFRS 9 and MFRS 17, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Company in the year of initial application.

The Company has yet to assess the full impact of MFRS 9 and MFRS 17 onto the Company's accounting policies and will complete the process prior to the reporting requirement deadline.

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 January 2019 are not relevant to the Company.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 year 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, 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 or earlier if the carrying values of the investment properties are materially different from the fair values. 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.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

Computer software in progress is not amortised until the asset is ready for its intended use.

**(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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 fair value. 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 fair value. 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 year are recognised when a claimable event occurs and/or the insurer is notified.

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

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

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

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 year in which they are incurred.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 year in respect of risks assumed during that particular financial period. Premiums from direct business are recognised during the financial year 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 year 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 years in which it is probable they give rise to income.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 years would have on those liabilities which is recognised directly in the other comprehensive income.

**(iv) Asset revaluation surplus adjustment**

Where asset revaluation reserve arises on the self-occupied properties of the DPF fund, the adjustment to the life insurance liabilities equal to the effect that the realisation of those surpluses at the end of the reporting period would have on those liabilities is recognised directly in other comprehensive income.

**(v) 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.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 General Insurance Appointed Actuary of the Company performs 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.

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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.

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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 years 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.

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Deferred tax is recognised as income or an expense and included in profit or loss for the financial year, 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(w) 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.

**(x) 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.

**(y) 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(z) Non-current assets (or disposal groups) held-for-sale and discontinued operations**

Non-current assets (or disposable groups) are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale transaction and held for distribution to the shareholders 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.

A discontinued operation is a component of the Company that has been disposed of or is classified as held-for-sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

**(aa) Investment in a unit trust fund controlled by the Company**

The Company has consolidated the unit trust fund that it controls in accordance with MFRS 10 "Consolidated Financial Statements", as a result of the Company's power conveyed through its investment management and other agreements which permit the Company to remove the Fund Manager and Trustee via majority voting rights. The Company's interest in this fund is the fund's investment returns.

In the Company's separate financial statements, investment in fund controlled by the Company is carried at fair value as an AFS financial asset. Refer to Note 2.2(e)(iii) for further details on the accounting policy on AFS financial assets.

**(ab) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Operating Officer who makes strategic decisions. The Company's principle operations are organised into Life insurance, General insurance and Shareholders' segments as disclosed in Note 41 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 General Insurance Appointed Actuary of the Company performs 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 or earlier if the carrying values of the collaterals are materially different from the fair values, and the impairment assessment is done monthly.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****4. PROPERTY, PLANT AND EQUIPMENT**

Continuing Operations

	Freehold and leasehold land	Freehold and leasehold buildings	Furniture, fittings and office equipment	Motor vehicles	Renovation	Work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost</b>							
At 1 January 2017	2,573	4,181	63,737	1,174	52,699	-	124,364
Additions	-	-	622	-	2,654	1,351	4,627
Write-offs	-	-	(53,829)	-	(41,362)	-	(95,191)
At 31 December 2017	2,573	4,181	10,530	1,174	13,991	1,351	33,800
Additions	-	-	9,736	506	9,293	155	19,690
Transfer	-	-	1,506	-	-	(1,506)	-
Write-offs	-	-	(514)	-	(1,967)	-	(2,481)
Disposals	(1,009)	(2,891)	-	(144)	-	-	(4,044)
At 31 December 2018	1,564	1,290	21,258	1,536	21,317	-	46,965

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Continuing Operations

	Freehold and leasehold land	Freehold and leasehold buildings	Furniture, fittings and office equipment	Motor vehicles	Renovation	Work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Accumulated depreciation and impairment loss</b>							
At 1 January 2017	84	1,048	58,866	585	48,075	-	108,658
Charge for the financial year (Note 25)	17	110	1,699	84	1,237	-	3,147
Write-offs	-	-	(53,829)	-	(41,362)	-	(95,191)
At 31 December 2017	101	1,158	6,736	669	7,950	-	16,614
Charge for the financial year (Note 25)	14	103	1,839	93	1,414	-	3,463
Write-offs	-	-	(395)	-	(1,366)	-	(1,761)
Disposals	(91)	(606)	-	(144)	-	-	(841)
At 31 December 2018	24	655	8,180	618	7,998	-	17,475
<b>Net carrying amount</b>							
At 31 December 2017	2,472	3,023	3,794	505	6,041	1,351	17,186
At 31 December 2018	1,540	635	13,078	918	13,319	-	29,490

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

## Discontinued Operations

	<b>Furniture, fittings and office equipment</b>	<b>Motor vehicles</b>	<b>Renovation</b>	<b>Work-in- progress</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>Cost</b>					
At 1 January 2017	8,119	643	3,141	-	11,903
Additions	362	400	649	1,351	2,762
Write-offs	(3,738)	-	(2,435)	-	(6,173)
At 31 December 2017	<u>4,743</u>	<u>1,043</u>	<u>1,355</u>	<u>1,351</u>	<u>8,492</u>
<b>Accumulated depreciation and impairment loss</b>					
At 1 January 2017	5,341	128	2,548	-	8,017
Charge for the financial year (Note 25)	860	104	120	-	1,084
Write-offs	(3,738)	-	(2,435)	-	(6,173)
At 31 December 2017	<u>2,463</u>	<u>232</u>	<u>233</u>	<u>-</u>	<u>2,928</u>
<b>Net carrying amount</b>					
At 31 December 2017	<u>2,280</u>	<u>811</u>	<u>1,122</u>	<u>1,351</u>	<u>5,564</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****5. INTANGIBLE ASSETS**

Continuing Operations

	<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 2017	22,721	-	22,721
Additions	-	2,342	2,342
Write-offs	(6,365)	-	(6,365)
At 31 December 2017	16,356	2,342	18,698
Additions	-	139	139
Transfer	651	(651)	-
Write-offs	-	(263)	(263)
At 31 December 2018	17,007	1,567	18,574
<b>Accumulated amortisation</b>			
At 1 January 2017	18,482	-	18,482
Amortisation during the financial year (Note 25)	2,056	-	2,056
Write-offs	(6,365)	-	(6,365)
At 31 December 2017	14,173	-	14,173
Amortisation during the financial year (Note 25)	1,645	-	1,645
At 31 December 2018	15,818	-	15,818
<b>Net carrying amount</b>			
At 31 December 2017	2,183	2,342	4,525
At 31 December 2018	1,189	1,567	2,756

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****5. INTANGIBLE ASSETS (CONTINUED)**

## Discontinued Operations

	<b>Computer software</b>
	<b>RM'000</b>
<b>Cost</b>	
At 1 January 2017	14,110
Additions	-
Write-offs	(2,807)
At 31 December 2017	<u>11,303</u>
<b>Accumulated amortisation</b>	
At 1 January 2017	10,143
Amortisation during the financial year (Note 25)	1,425
Write-offs	(2,807)
At 31 December 2017	<u>8,761</u>
<b>Net carrying amount</b>	
At 31 December 2017	<u>2,542</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****6. INVESTMENT PROPERTIES**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	258,250	303,490
Fair value losses recorded in statement of profit or loss		
- Continuing operations (Note 22)	-	(45,240)
Transfer to non-current assets classified as held-for-sale (Note 12(a))	(550)	-
At 31 December	<u>257,700</u>	<u>258,250</u>

The fair values of the investment properties as at 31 December 2018 and 31 December 2017 were determined by external independent valuers, or by management based on market or income approaches by reference to valuations performed by external independent valuers where considered appropriate. 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 20 to the financial statements.

The titles to certain investment properties amounting to RM66,150,000 (2017: RM66,150,000) 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.

Fair value is determined through various valuation techniques using Level 3 inputs (defined as unobservable inputs for asset or liability) in the fair value hierarchy of MFRS 113 Fair Value Measurement. Changes in fair value are recognised in the statement of profit or loss during the reporting period in which they are reviewed.

The Level 3 inputs or unobservable inputs include:

- Term yield - the expected rental that the investment properties are expected to achieve and are derived from the current passing rental, including revision upon renewal of tenancies during the financial year;
- Reversion yield - the expected rental that the investment properties are expected to achieve upon expiry of term rental;
- Allowance for void - refers to allowance provided for vacancy periods; and
- Price per square foot (psf) - estimated price psf for which a property should exchange on the date of valuation between a willing buyer and a willing seller.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****6. INVESTMENT PROPERTIES (CONTINUED)**

The fair value measurements using Level 3 inputs as at are as follows:

	Valuation technique	Fair value RM'000	Term yield %	Reversion yield %	Allowance for void %	Reversion outgoing RM psf/month	Price per sq foot RM/psf
31 December 2018							
Office building	Investment method	170,000	6.50	6.50	10.00	1.20	-
Others	Investment method	33,000	6.00	6.50	10.00	0.92	-
	Comparison method	55,250	-	-	-	-	29.00 – 714.00
31 December 2017							
Office building	Investment method	170,000	6.00 – 7.00	6.50	10.00	1.20	-
Others	Investment method	33,000	6.00	6.50	10.00	0.92	-
	Comparison method	55,250	-	-	-	-	29.00 – 714.00

The sensitivity analysis performed on the fair value of a significant investment property will result in a change in fair value as follows:

Level 3 inputs	31.12.2018		31.12.2017	
	Change in input Basis points	Change in fair value RM'000	Change in input Basis points	Change in fair value RM'000
Term yield	+25		+25	
Reversion yield	+50	(8,000)	+50	(8,000)
Allowance for void	+100		+100	
Term yield	-25		-25	
Reversion yield	-50	6,000	-50	6,000
Allowance for void	-100		-100	

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****7. INVESTMENTS**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Malaysian Government Securities/ Government Investment Issues	659,775	812,556
Corporate debt securities	4,215,199	4,218,487
Equity securities	1,416,963	1,459,705
Unit trusts	421,839	241,304
Loans	309,457	352,479
	<u>7,023,233</u>	<u>7,084,531</u>

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

Available-for-sale ("AFS") financial assets	4,916,754	5,100,500
Fair value through profit or loss ("FVTPL") financial assets	1,797,022	1,631,552
Loans and receivables ("LAR") (Note 8)	309,457	352,479
	<u>7,023,233</u>	<u>7,084,531</u>

Investments that mature after 12 months:

AFS financial assets	4,512,353	4,737,639
FVTPL financial assets	149,004	147,576
LAR (Note 8)	5,402	6,309
	<u>4,666,759</u>	<u>4,891,524</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****7. INVESTMENTS (CONTINUED)**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(a) AFS financial assets</b>		
Malaysian Government Securities/Government Investment Issues	650,083	799,712
Corporate debt securities		
- Unquoted in Malaysia	4,072,317	4,081,555
Equity securities		
- Quoted in Malaysia	176,360	206,870
- Unquoted in Malaysia	14,161	12,363
Unit trusts		
- Quoted in Malaysia	3,833	-
	<u>4,916,754</u>	<u>5,100,500</u>
<b>(b) FVTPL financial assets</b>		
<b>Held-for-trading:</b>		
Equity securities		
- Quoted in Malaysia	619,540	614,870
Unit trusts		
- Quoted in Malaysia	237,162	61,762
	<u>856,702</u>	<u>676,632</u>
<b>Designated at FVTPL:</b>		
Malaysian Government Securities/Government Investment Issues	9,692	12,844
Corporate debt securities		
- Unquoted in Malaysia	142,882	136,932
Equity securities		
- Quoted in Malaysia	606,902	625,602
Unit trusts		
- Quoted in Malaysia	11,879	16,534
- Unquoted outside Malaysia	168,965	163,008
	<u>940,320</u>	<u>954,920</u>
	<u>1,797,022</u>	<u>1,631,552</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 2017	5,275,699	1,396,545	6,672,244
Purchases	1,132,488	557,784	1,690,272
Disposals (sale and redemptions)	(1,240,366)	(464,689)	(1,705,055)
Fair value gains recorded in:			
Statement of profit or loss (Note 22)	-	142,783	142,783
Other comprehensive income	34,490	-	34,490
Movement in impairment allowance (Note 22)	(1,300)	-	(1,300)
Amortisation/interest adjustment	3,708	(871)	2,837
Transfer to assets held for distribution to shareholders (Note 12(c))	<u>(104,219)</u>	<u>-</u>	<u>(104,219)</u>
At 31 December 2017	5,100,500	1,631,552	6,732,052
Purchases	847,653	1,113,535	1,961,188
Disposals (sale and redemptions)	(1,019,381)	(777,427)	(1,796,808)
Fair value losses recorded in:			
Statement of profit or loss (Note 22)	-	(170,187)	(170,187)
Other comprehensive income	(7,970)	-	(7,970)
Amortisation/interest adjustment	<u>(4,048)</u>	<u>(451)</u>	<u>(4,499)</u>
At 31 December 2018	<u>4,916,754</u>	<u>1,797,022</u>	<u>6,713,776</u>

The fair value hierarchy of investments is disclosed in Note 36 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****8. LOANS AND RECEIVABLES**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Loans arising from:		
Policy loans	266,156	258,456
Mortgage loans	58,566	109,573
Unsecured loans	<u>408</u>	<u>418</u>
	325,130	368,447
Allowance for impairment	<u>(15,673)</u>	<u>(15,968)</u>
Net loans (Note 7)	<u>309,457</u>	<u>352,479</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>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Receivables within 12 months:		
Net loans	304,055	346,170
Receivables after 12 months:		
Net loans	<u>5,402</u>	<u>6,309</u>
	<u>309,457</u>	<u>352,479</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****8. LOANS AND RECEIVABLES (CONTINUED)**

Included in the total loans portfolio net of allowance for impairment as at 31 December 2018, are several NPL amounting to approximately RM36,813,000 (2017: RM86,827,000). 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 RM1,075,000 (2017: RM6,347,000) for the NPL.

The net loans can be analysed as follows:

	<b>31.12.2018</b>	<b>31.12.2017</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	266,156	258,456
Other term loans	51,081	101,300
Housing loans	7,837	8,625
Staff loans	56	66
	<u>325,130</u>	<u>368,447</u>
(ii) Outstanding loans before allowance for impairment analysed by type of customers are as follows:		
Policyholders	268,822	261,359
Business enterprises	51,058	101,278
Staff	63	87
Agents	462	472
Individuals	4,725	5,251
	<u>325,130</u>	<u>368,447</u>
(iii) Outstanding loans before allowance for impairment analysed by economic purpose are as follows:		
Policy loans	266,156	258,456
Construction	51,027	53,239
Purchase of landed properties/securities	7,773	56,449
Fixed assets other than land and building	95	234
Personal use	57	47
Working capital	22	22
	<u>325,130</u>	<u>368,447</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****8. LOANS AND RECEIVABLES (CONTINUED)**

	<b>31.12.2018</b>	<b>31.12.2017</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	102,795	102,459
Classified as non-performing	-	517
Amount written back in respect of recoveries	(50,448)	(181)
Amount written-off	(132)	-
Interest movements	271	-
Outstanding loans before allowance for impairment at the end of the year	<u>52,486</u>	<u>102,795</u>
(v) Movements in the allowance for impairment for NPL are as follows:		
Balance at the beginning of financial year	15,968	15,673
Allowance for the financial year	-	295
Amount written back in respect of recoveries	(163)	-
Amount written off	(132)	-
Net (write-back)/allowance during the financial year	(295)	295
Balance at the end of the financial year	<u>15,673</u>	<u>15,968</u>
(vi) NPL before allowance for impairment analysed by loan type are as follows:		
Other term loans	51,070	101,300
Housing loans	1,416	1,495
	<u>52,486</u>	<u>102,795</u>
(vii) NPL before allowance for impairment analysed by type of customers are as follows:		
Policyholders	247	353
Business enterprises	51,048	101,278
Agents	464	454
Individuals	727	710
	<u>52,486</u>	<u>102,795</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****8. LOANS AND RECEIVABLES (CONTINUED)**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
(viii) NPL before allowance for impairment analysed by economic purpose are as follows:		
Construction	51,026	53,239
Purchase of landed properties/securities	1,417	49,513
Personal use	21	21
Working capital	22	22
	<u>52,486</u>	<u>102,795</u>
(ix) Aging of NPL before allowance for impairment is as follows:		
Up to 1 year	31	31
1 to 5 years	598	598
More than 5 years	51,857	102,166
	<u>52,486</u>	<u>102,795</u>

The fair value of the collaterals held as at the date of the statement of financial position was RM324,662,000 (2017: RM391,835,000).

The fair value hierarchy of loans and receivable is disclosed in Note 36 to the financial statements.

**9. REINSURANCE ASSETS**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Reinsurers' share of insurance contract liabilities (Note 16)	<u>31,729</u>	<u>33,169</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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****10. INSURANCE RECEIVABLES**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Due premiums including agents/brokers and co-insurers balances	27,214	29,851
Due from reinsurers and cedants	4,659	2,204
	<u>31,873</u>	<u>32,055</u>
Allowance for impairment	(180)	(176)
	<u><u>31,693</u></u>	<u><u>31,879</u></u>

**11. OTHER RECEIVABLES**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Outstanding proceeds from disposal of investments	4,481	9,042
Deposits, prepayment and other receivables	33,719	13,445
	<u><u>38,200</u></u>	<u><u>22,487</u></u>

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

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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 at least 10% deposits paid, sale and purchase agreements executed, and pending sale completion.

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Carrying value</u>		
At 1 January	-	-
Transfer from investment properties (Note 6)	550	-
At 31 December	<u>550</u>	<u>-</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.

In 2016, the Directors have approved the disposal of the General insurance business to another legal entity as required by the FSA. Approval from BNM has been obtained, and the disposal was completed on 1 January 2018 (see Note 42).

Accordingly, the assets and liabilities of the General insurance business of the Company have been presented as a disposal group classified as held-for-sale in the statement of financial position as at 31 December 2017 while the operating results and cash flows of the General insurance business have been classified as discontinued operations in the statement of profit or loss, statement of comprehensive income and statement of cash flows for the financial year ended 31 December 2017.



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****12. ASSETS CLASSIFIED AS HELD-FOR-SALE (CONTINUED)****(b) Discontinued operations (continued)****(i) Assets and liabilities in a unit trust fund controlled by the Company**

In 2017, the Company has determined its investment in a retail unit trust fund amounting to RM709,266,000 in the financial statements as investment in a structured entity ("investee fund"). The Company invests in the investee fund whose objective is to provide regular income through diversified investments in Malaysian and whose investment strategy does not include the use of leverage. The investee fund is managed by CIMB-Principal Asset Management Berhad and applies various investment strategies to accomplish its respective investment objectives. The investee fund finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund's net assets.

The Company holds 99.98% of the units in the CIMB-Principal Conservative Bond Fund which is established in Malaysia, and thus has control over the investee fund. The Company is exposed to, or has rights to variable returns from its involvement with the entity.

The Company's maximum exposure to loss from its interests in the investee fund is equal to the fair value of its investment in the investee fund. As the Company has control over the investee fund which is considered controlled structured entity, the structured entity is consolidated at Group level. The underlying assets of the structured entity have been duly consolidated as follows:

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****12. ASSETS CLASSIFIED AS HELD-FOR-SALE (CONTINUED)****(b) Discontinued operations (continued)****(i) Assets and liabilities in a unit trust fund controlled by the Company (continued)**

The assets and liabilities of the CIMB-Principal Conservative Bond Fund which is controlled by the Company are as follows:

	<b>31.12.2017</b>
	<b>RM'000</b>
<b>Assets</b>	
Investments - AFS	690,716
Other receivables	90
Cash and cash equivalents	18,747
	<u>709,553</u>
<b>Liabilities</b>	
Other liabilities	<u>287</u>

The types of investments classified as AFS financial assets are summarised as follows:

	<b>31.12.2017</b>
	<b>RM'000</b>
<b>AFS financial assets</b>	
Malaysian Government Securities/Government Investment Issues	121,569
Corporate debt securities	
- Unquoted in Malaysia	569,147
	<u>690,716</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****12. ASSETS CLASSIFIED AS HELD-FOR-SALE (CONTINUED)****(b) Discontinued operations (continued)****(ii) Other assets of a disposal group classified as held-for-sale**

	<b>31.12.2017</b>
	<b>RM'000</b>
Property, plant and equipment (Note 4)	5,564
Intangible assets (Note 5)	2,542
Investment properties	11,960
Investments	95,334
AFS	95,022
LAR	312
Reinsurance assets (Note 16)	201,043
Insurance receivables	69,790
Other receivables	61,200
Tax recoverable	1,202
Cash and cash equivalents	37,823
Total	<u>486,458</u>

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

	<b>31.12.2017</b>
	<b>RM'000</b>
<b>AFS financial assets</b>	
Corporate debt securities	
- Unquoted in Malaysia	31,276
Equity securities	
- Quoted in Malaysia	63,746
	<u>95,022</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****12. ASSETS CLASSIFIED AS HELD-FOR-SALE (CONTINUED)****(b) Discontinued operations (continued)****(ii) Other assets of a disposal group classified as held-for-sale (continued)**

	<b>31.12.2017</b>
	<b>RM'000</b>
<b>Loans and receivables</b>	
Mortgage loans	119
Unsecured loans	193
	<u>312</u>
<b>Insurance receivables</b>	
Due premiums including agents/brokers and co-insurers balances	68,476
Due from reinsurers and cedants	8,492
	<u>76,968</u>
Allowance for impairment	<u>(7,178)</u>
	<u>69,790</u>
<b>Other receivables</b>	
Assets held under Malaysian Motor Insurance Pool ("MMIP")*	55,723
Deposits, prepayment and other receivables	5,477
	<u>61,200</u>

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

\* In 2017, 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 RM21,364,000. There is a net receivable as at 31 December 2017 of RM11,136,000 from MMIP after setting off the assets held under MMIP against the Company's share of MMIP's claims and premium liabilities amounting to RM3,370,000 included in Note 16 to the financial statements.

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

	<b>31.12.2017</b>
	<b>RM'000</b>
Available-for-sale reserve	<u>9,646</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****12. NON-CURRENT ASSETS HELD-FOR-SALE (CONTINUED)****(b) Discontinued operations (continued)****(iv) Other liabilities of a disposal group classified as held-for-sale**

	<b>31.12.2017</b>
	<b>RM'000</b>
Insurance contract liabilities (Note 16)	842,033
Deferred tax liabilities (Note 13)	4,087
Other liabilities	96,956
Insurance payables	124,120
Current tax liabilities	356
	<u>1,067,552</u>

The other liabilities and insurance payables for a disposal group classified as held-for-sale are summarised as follows:

	<b>31.12.2017</b>
	<b>RM'000</b>
<b>Other liabilities</b>	
Cash collaterals held for performance bond underwritten	30,294
Unclaimed monies	934
Rental deposits	245
Accrual for unutilised staff leave	1,427
Accrued expenses	41,106
Other payables	22,950
	<u>96,956</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****12. NON-CURRENT ASSETS HELD-FOR-SALE (CONTINUED)****(b) Discontinued operations (continued)****(iv) Other liabilities of a disposal group classified as held-for-sale (continued)**

	<b>31.12.2017</b>
	<b>RM'000</b>
<b>Insurance payables</b>	
Due to agents and intermediaries	23,819
Due to reinsurers and cedants	51,230
Reinsurer's deposits withheld	49,071
	<u>124,120</u>

**(c) Assets held for distribution to the shareholders**

In order to ensure that the minimum capital requirements of the general insurance business are met, the following assets have been identified to be disposed together with the General Insurance Fund referred to in Note 12(b)(ii).

	<b>31.12.2017</b>
	<b>RM'000</b>
Investments – AFS	
- Malaysian Government Securities/Government Investment Issues	25,489
- Corporate debt securities unquoted in Malaysia	78,730
Cash and cash equivalents	2,081
	<u>106,300</u>

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**ZURICH LIFE INSURANCE MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (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:

	31.12.2018			31.12.2017		
	Life fund	Share-holders' fund	Total	Life fund	General and Share-holders' funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax assets						
- Recoverable within 12 months	-	441	441	-	349	349
- Recoverable after 12 months	-	56,836	56,836	-	32,945	32,945
	-	57,277	57,277	-	33,294	33,294
Deferred tax liabilities						
- Settled within 12 months	974	-	974	5,149	936	6,085
- Settled after 12 months	(119,723)	-	(119,723)	(130,548)	(5,023)	(135,571)
	(118,749)	-	(118,749)	(125,399)	(4,087)	(129,486)
Deferred tax (liabilities)/assets (net)	(118,749)	57,277	(61,472)	(125,399)	29,207	(96,192)
Comprising:						
Continuing operations	(118,749)	57,277	(61,472)	(125,399)	33,294	(92,105)
Discontinued operations (Note 12(b)(iv))	-	-	-	-	(4,087)	(4,087)
	(118,749)	57,277	(61,472)	(125,399)	29,207	(96,192)

Company No.	
8029	A

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

**13. DEFERRED TAXATION (CONTINUED)**

	2018			2017		
	Life fund	Share- holders' fund	Total	Life fund	General and Share- holders' funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	(125,399)	33,294	(92,105)	(113,592)	29,901	(83,691)
Credited/(charged) to statement of profit or loss (Note 27)						
- property, plant and equipment	463	-	463	110	103	213
- investments and loans	16,089	44	16,133	(9,258)	560	(8,698)
- investment properties	-	-	-	2,521	3,298	5,819
- Unallocated surplus of non-DPF	(10,365)	-	(10,365)	(3,453)	-	(3,453)
- temporary funding to/(refund from) life participating fund	-	23,920	23,920	-	(1,272)	(1,272)
	<u>6,187</u>	<u>23,964</u>	<u>30,151</u>	<u>(10,080)</u>	<u>2,689</u>	<u>(7,391)</u>
Credited/(charged) to comprehensive income:						
- asset revaluation reserve	-	-	-	-	-	-
- available-for-sale reserve	463	19	482	(1,727)	(3,383)	(5,110)
	<u>463</u>	<u>19</u>	<u>482</u>	<u>(1,727)</u>	<u>(3,383)</u>	<u>(5,110)</u>
At 31 December	<u>(118,749)</u>	<u>57,277</u>	<u>(61,472)</u>	<u>(125,399)</u>	<u>29,207</u>	<u>(96,192)</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****13. DEFERRED TAXATION (CONTINUED)**

	<b>2018</b>			<b>2017</b>		
	<b>Life fund</b>	<b>Share- holders' fund</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>
Comprising:						
Credited/(charged) to statement of profit or loss (Note 27)						
- continuing operations	6,187	23,964	30,151	(10,080)	2,601	(7,479)
- discontinued operations	-	-	-	-	88	88
	<u>6,187</u>	<u>23,964</u>	<u>30,151</u>	<u>(10,080)</u>	<u>2,689</u>	<u>(7,391)</u>
Credited/(charged) to comprehensive income						
- continuing operations	463	19	482	(1,727)	(774)	(2,501)
- discontinued operations	-	-	-	-	(2,609)	(2,609)
	<u>463</u>	<u>19</u>	<u>482</u>	<u>(1,727)</u>	<u>(3,383)</u>	<u>(5,110)</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****13. DEFERRED TAXATION (CONTINUED)**

	<b>31.12.2018</b>			<b>31.12.2017</b>		
	<b>Life fund</b>	<b>Share-holders' fund</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	2,786	3,377	6,163	1,342	4,375	5,717
- investment properties	5,279	12,716	17,995	5,279	12,716	17,995
- others	28	-	28	28	-	28
- temporary funding to life participating fund	-	43,813	43,813	-	19,893	19,893
	8,093	59,906	67,999	6,649	36,984	43,633
Offsetting	(8,093)	(2,629)	(10,722)	(6,649)	(3,690)	(10,339)
Deferred tax assets after offsetting	-	57,277	57,277	-	33,294	33,294
Deferred tax liabilities (before offsetting)						
- asset revaluation reserve	(1,644)	(1,890)	(3,534)	(1,644)	(1,890)	(3,534)
- available-for-sale reserve	(6,767)	(739)	(7,506)	(7,230)	(3,804)	(11,034)
- property, plant and equipment	(454)	-	(454)	(917)	(1,211)	(2,128)
- investments and loans	(3,904)	-	(3,904)	(18,549)	-	(18,549)
- investment properties	-	-	-	-	(872)	(872)
- unallocated surplus of non-DPF	(114,073)	-	(114,073)	(103,708)	-	(103,708)
	(126,842)	(2,629)	(129,471)	(132,048)	(7,777)	(139,825)
Offsetting	8,093	2,629	10,722	6,649	3,690	10,339
Deferred tax liabilities after offsetting	(118,749)	-	(118,749)	(125,399)	(4,087)	(129,486)

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****14. SHARE CAPITAL**

	<b>31.12.2018</b>		<b>31.12.2017</b>	
	<b>Number of shares</b>	<b>Share capital</b>	<b>Number of shares</b>	<b>Share capital</b>
	<b>'000</b>	<b>RM'000</b>	<b>'000</b>	<b>RM'000</b>
<u>Issued and fully paid</u>				
At 31 December				
– ordinary shares with no par value	<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 dividends 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****16. INSURANCE CONTRACT LIABILITIES**

		31.12.2018			31.12.2017		
Note		Gross	Re-insurance	Net	Gross	Re-insurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Life insurance	16(a)	4,436,963	(31,729)	4,405,234	4,471,684	(33,169)	4,438,515
General insurance	16(b)						
- discontinued operations	12(b)(iv)	-	-	-	842,033	(201,043)	640,990
		<u>4,436,963</u>	<u>(31,729)</u>	<u>4,405,234</u>	<u>5,313,717</u>	<u>(234,212)</u>	<u>5,079,505</u>
		31.12.2018			31.12.2017		
		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		3,320,502	(25,561)	3,294,941	3,364,587	(27,439)	3,337,148
Net asset value attributable to unitholders		<u>1,010,940</u>	<u>-</u>	<u>1,010,940</u>	<u>1,025,064</u>	<u>-</u>	<u>1,025,064</u>
Actuarial liabilities		4,331,442	(25,561)	4,305,881	4,389,651	(27,439)	4,362,212
Claims liabilities		<u>94,163</u>	<u>(6,168)</u>	<u>87,995</u>	<u>70,992</u>	<u>(5,730)</u>	<u>65,262</u>
		4,425,605	(31,729)	4,393,876	4,460,643	(33,169)	4,427,474
Life Participating Fund:							
- Unallocated deficit		(81,468)	-	(81,468)	(89,362)	-	(89,362)
- Available-for-sale reserve		71,836	-	71,836	79,413	-	79,413
- Asset revaluation reserve		<u>20,990</u>	<u>-</u>	<u>20,990</u>	<u>20,990</u>	<u>-</u>	<u>20,990</u>
		<u>4,436,963</u>	<u>(31,729)</u>	<u>4,405,234</u>	<u>4,471,684</u>	<u>(33,169)</u>	<u>4,438,515</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****16. INSURANCE CONTRACT LIABILITIES (CONTINUED)****(a) Life insurance (continued)**

	Gross			Reinsurance			
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Actuarial liabilities</u>							
At 1 January 2017	2,738,422	1,630,382	4,368,804	(7,230)	(16,267)	(23,497)	4,345,307
Benefit and claims experience variation	(115,746)	11,218	(104,528)	(3,135)	(807)	(3,942)	(108,470)
Change due to valuation basis:							
Model enhancement	-	-	-	-	-	-	-
Yield movement	-	25,835	25,835	-	-	-	25,835
Assumption changes	(5,002)	(6,757)	(11,759)	-	-	-	(11,759)
Net asset value attributable to unitholders	-	111,299	111,299	-	-	-	111,299
At 31 December 2017	2,617,674	1,771,977	4,389,651	(10,365)	(17,074)	(27,439)	4,362,212
Benefit and claims experience variation	(74,215)	40,323	(33,892)	879	999	1,878	(32,014)
Change due to valuation basis:							
Model enhancement	(7,148)	(4,646)	(11,794)	-	-	-	(11,794)
Yield movement	-	(7,292)	(7,292)	-	-	-	(7,292)
Assumption changes	(3,021)	11,914	8,893	-	-	-	8,893
Net asset value attributable to unitholders	-	(14,124)	(14,124)	-	-	-	(14,124)
At 31 December 2018	2,533,290	1,798,152	4,331,442	(9,486)	(16,075)	(25,561)	4,305,881

Company No.	
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**ZURICH LIFE INSURANCE MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

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

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

	<b>Gross</b>			<b>Reinsurance</b>			<b>Net</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>	<b>RM'000</b>
<u>Claims liabilities</u>							
At 1 January 2017	46,368	34,217	80,585	(830)	(4,881)	(5,711)	74,874
Movement in claim provisions	(10,130)	537	(9,593)	34	(53)	(19)	(9,612)
At 31 December 2017	36,238	34,754	70,992	(796)	(4,934)	(5,730)	65,262
Movement in claim provisions	6,182	16,989	23,171	194	(632)	(438)	22,733
At 31 December 2018	42,420	51,743	94,163	(602)	(5,566)	(6,168)	87,995

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**ZURICH LIFE INSURANCE MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

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

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

	2018			2017		
	With DPF	Without DPF*	Total	With DPF	Without DPF*	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Unallocated surplus/(deficit)</u>						
At 1 January	(89,362)	417,772	328,410	(71,475)	388,948	317,473
Premium received	161,125	566,849	727,974	174,122	547,806	721,928
Payment due to death, surrenders, benefits and claims	(405,576)	(316,837)	(722,413)	(506,834)	(336,359)	(843,193)
Net investment income	121,999	25,009	147,008	251,579	176,107	427,686
Management expenses and commissions	(43,502)	(197,829)	(241,331)	(41,131)	(200,862)	(241,993)
Change in life insurance fund actuarial liabilities	78,201	(43,162)	35,039	130,878	(142,132)	(11,254)
Change in claims liabilities ceded to reinsurers	(1,074)	(366)	(1,440)	3,176	774	3,950
Tax expense	(2,950)	(8,736)	(11,686)	(24,376)	(16,510)	(40,886)
Temporary funding from/(refund to) Shareholders' Fund	99,671	-	99,671	(5,301)	-	(5,301)
Net surplus/(deficit) for the financial year	7,894	24,928	32,822	(17,887)	28,824	10,937
At 31 December	<u>(81,468)</u>	<u>442,700</u>	<u>361,232</u>	<u>(89,362)</u>	<u>417,772</u>	<u>328,410</u>

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

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****16. INSURANCE CONTRACT LIABILITIES (CONTINUED)****(a) Life insurance (continued)**

Reserves movement for the Life Participating fund is as follows:

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Available-for-sale reserve</u>		
At 1 January	79,413	62,758
Fair value change on available-for-sale financial assets, net of tax:		
- Gross fair value change	(8,053)	17,262
- Deferred tax	<u>476</u>	<u>(607)</u>
	<u>(7,577)</u>	<u>16,655</u>
At 31 December	<u>71,836</u>	<u>79,413</u>
	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Asset revaluation reserve	<u>20,990</u>	<u>20,990</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****16. INSURANCE CONTRACT LIABILITIES (CONTINUED)****(b) General insurance**

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

	<b>31.12.2017</b>		
	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Provision for claims	337,445	(87,758)	249,687
Provision for incurred but not reported claims ("IBNR")	196,057	(45,869)	150,188
Claim liabilities	533,502	(133,627)	399,875
Premium liabilities	308,531	(67,416)	241,115
	<u>842,033</u>	<u>(201,043)</u>	<u>640,990</u>
	<b>2017</b>		
	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Claims liabilities</u>			
At 1 January	496,671	(89,889)	406,782
Claims incurred in the current accident year	267,897	(38,178)	229,719
Other movements in claims incurred in prior accident years	55,135	(9,950)	45,185
Claims paid during the financial year	(316,016)	30,674	(285,342)
Movement in IBNR reserves	29,815	(26,284)	3,531
At 31 December	<u>533,502</u>	<u>(133,627)</u>	<u>399,875</u>
<u>Premium liabilities</u>			
At 1 January	293,316	(57,947)	235,369
Premium written in the financial year	661,108	(125,808)	535,300
Premium earned during the financial year	(645,893)	116,339	(529,554)
At 31 December	<u>308,531</u>	<u>(67,416)</u>	<u>241,115</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****17. OTHER LIABILITIES**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Investment creditors	1,117	8,208
Unclaimed monies	5,609	3,570
Rental deposits	1,606	1,330
Accrual for unutilised staff leave	1,504	1,178
Accrued expenses	16,635	19,348
Other payables	54,931	43,426
	<u>81,402</u>	<u>77,060</u>
Repayable within 12 months	80,544	76,369
Repayable after 12 months	858	691
	<u>81,402</u>	<u>77,060</u>

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

**18. INSURANCE PAYABLES**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Due to agents and intermediaries	50,196	48,256
Due to reinsurers and cedants	8,662	5,000
Cash payments/cash dividends payable to life policyholders	1,624,855	1,601,475
Accrued interest on cash payments/cash dividends payable to life policyholders	85,285	94,304
Premium deposits	15,451	12,089
	<u>1,784,449</u>	<u>1,761,124</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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****19. NET EARNED PREMIUMS**

	<u>2018</u>		<u>2017</u>	
		<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>
	<b>RM'000</b>	<b>operations</b>	<b>operations</b>	<b>RM'000</b>
		<b>RM'000</b>	<b>RM'000</b>	
(a) Gross premiums				
- Insurance contracts	786,381	782,759	661,108	1,443,867
- Change in premium liabilities	-	-	(15,215)	(15,215)
	<u>786,381</u>	<u>782,759</u>	<u>645,893</u>	<u>1,428,652</u>
(b) Premiums ceded to reinsurers				
- Insurance contracts	(58,407)	(60,831)	(125,808)	(186,639)
- Change in premium liabilities	-	-	9,469	9,469
	<u>(58,407)</u>	<u>(60,831)</u>	<u>(116,339)</u>	<u>(177,170)</u>
Net earned premiums	<u>727,974</u>	<u>721,928</u>	<u>529,554</u>	<u>1,251,482</u>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****20. INVESTMENT INCOME**

	2018			2017
		Continuing operations	Discontinued operations	Total
	RM'000	RM'000	RM'000	RM'000
<b>FVTPL financial assets</b>				
Interest/profit income:				
- Malaysian Government Securities/Government Investment Issues	524	595	-	595
- corporate debt securities unquoted in Malaysia	8,138	8,641	-	8,641
Dividend/distribution income:				
- equity securities quoted in Malaysia	43,747	40,718	-	40,718
- unit trusts quoted in Malaysia	10,353	3,484	-	3,484
- unit trusts quoted outside Malaysia	1,900	1,567	-	1,567
Accretion of discounts/ (amortisation of premiums):				
- Malaysian Government Securities/Government Investment Issues	23	28	-	28
- corporate debt securities unquoted in Malaysia	(589)	(667)	-	(667)
	<u>64,096</u>	<u>54,366</u>	<u>-</u>	<u>54,366</u>
<b>AFS financial assets</b>				
Interest/profit income:				
- Malaysian Government Securities/ Government Investment Issues	27,836	38,628	4,219	42,847
- corporate debt securities unquoted in Malaysia	203,371	196,848	11,547	208,395
Dividend/distribution income:				
- equity securities quoted in Malaysia	6,370	7,070	2,145	9,215
- equity securities unquoted in Malaysia	297	297	-	297
- unit trusts	11	-	9,399	9,399
Accretion of discounts/ (amortisation of premiums):				
- Malaysian Government Securities/Government Investment Issues	406	400	(136)	264
- corporate debt securities unquoted in Malaysia	(5,205)	2,873	(541)	2,332
	<u>233,086</u>	<u>246,116</u>	<u>26,633</u>	<u>272,749</u>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****20. INVESTMENT INCOME (CONTINUED)**

	<u>2018</u>		<u>2017</u>	
		<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>
	<b>RM'000</b>	<b>operations</b>	<b>operations</b>	<b>RM'000</b>
		<b>RM'000</b>	<b>RM'000</b>	
<b>Loans and receivables</b>				
Interest/profit income:				
- policy loans	17,660	17,729	-	17,729
- mortgage loans	5,076	2,879	8	2,887
- other secured and unsecured loans	1	1	10	11
- fixed and call deposits	7,552	5,464	689	6,153
	<u>30,289</u>	<u>26,073</u>	<u>707</u>	<u>26,780</u>
<b>Properties</b>				
Gross rental income	14,411	15,846	255	16,101
Less: Rates and maintenance	<u>(8,614)</u>	<u>(8,233)</u>	<u>(263)</u>	<u>(8,496)</u>
	<u>5,797</u>	<u>7,613</u>	<u>(8)</u>	<u>7,605</u>
	<u>333,268</u>	<u>334,168</u>	<u>27,332</u>	<u>361,500</u>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****21. REALISED GAINS AND LOSSES**

	2018			2017
		Continuing	Discontinued	Total
	RM'000	operations	operations	RM'000
		RM'000	RM'000	
<b>AFS financial assets</b>				
Realised gains:				
- Malaysian Government Securities/Government Investment Issues	1,455	1,730	1,115	2,845
- corporate debt securities unquoted in Malaysia	18,110	7,780	1,247	9,027
- equity securities quoted in Malaysia	14,138	8,337	2,221	10,558
- unit trusts quoted in Malaysia	-	115	3,145	3,260
Realised losses:				
- Malaysian Government Securities/Government Investment Issues	(207)	(915)	(4)	(919)
- corporate debt securities unquoted in Malaysia	(830)	(3,266)	(227)	(3,493)
- equity securities quoted in Malaysia	(14,245)	(5,486)	(1,621)	(7,107)
- unit trusts quoted in Malaysia	-	-	(2,630)	(2,630)
	18,421	8,295	3,246	11,541
<b>Non-financial assets</b>				
Realised gains:				
- property, plant and equipment	4,696	-	-	-
	23,117	8,295	3,246	11,541

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****22. FAIR VALUE GAINS AND LOSSES**

	2018		2017	
		Continuing operations	Discontinued operations	Total
	RM'000	RM'000	RM'000	RM'000
<b>FVTPL financial assets:</b>				
Net fair value gains/(losses)				
- Malaysian Government Securities/Government Investment Issues	(129)	200	-	200
- corporate debt securities unquoted in Malaysia	838	623	-	623
- equity securities quoted in Malaysia	(154,060)	122,607	38	122,645
- equity securities unquoted in Malaysia	1	-	-	-
- unit trusts quoted in Malaysia	(2,830)	2,822	-	2,822
- unit trusts unquoted outside Malaysia	(14,007)	16,531	-	16,531
	(170,187)	142,783	38	142,821
<b>Investment properties:</b>				
Net fair value losses (Note 6)	-	(45,240)	-	(45,240)
<b>AFS financial assets:</b>				
Impairment losses	-	(1,300)	(970)	(2,270)
<b>Loans and receivables:</b>				
Write-back/(allowance) of impairment	163	(295)	-	(295)
	(170,024)	95,948	(932)	95,016

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****23. FEES AND COMMISSION**

	<u>2018</u>			<u>2017</u>
	<u>RM'000</u>	Continuing operations	Discontinued operations	Total
		RM'000	RM'000	RM'000
<b>(a) Fee and commission income</b>				
Policy administration and investment management services	1,115	827	-	827
Surrender charges and other contract fees	203	237	-	237
Reinsurance commission income	4,548	5,199	13,869	19,068
	<u>5,866</u>	<u>6,263</u>	<u>13,869</u>	<u>20,132</u>
<b>(b) Fee and commission expenses</b>				
Gross commission expenses	<u>(115,615)</u>	<u>(113,332)</u>	<u>(72,705)</u>	<u>(186,037)</u>

**24. NET BENEFITS AND CLAIMS**

	<u>2018</u>			<u>2017</u>
	<u>RM'000</u>	Continuing operations	Discontinued operations	Total
		RM'000	RM'000	RM'000
(a) Gross benefits and claims paid	<u>(773,774)</u>	<u>(890,495)</u>	<u>(316,016)</u>	<u>(1,206,511)</u>
(b) Claims ceded to reinsurers	<u>51,361</u>	<u>47,310</u>	<u>30,674</u>	<u>77,984</u>
(c) Gross change in contract liabilities	<u>27,145</u>	<u>6,633</u>	<u>(36,831)</u>	<u>(30,198)</u>
(d) Change in contract liabilities ceded to reinsurers	<u>(1,440)</u>	<u>3,942</u>	<u>43,738</u>	<u>47,680</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****25. MANAGEMENT EXPENSES**

	2018			2017
		Continuing operations	Discontinued operations	Total
	RM'000	RM'000	RM'000	RM'000
Staff costs (including Executive Director):				
- salaries and bonus	95,741	59,857	81,107	140,964
- staff and retirement benefits contributions	17,474	14,144	17,522	31,666
	<u>113,215</u>	<u>74,001</u>	<u>98,629</u>	<u>172,630</u>
Directors' remuneration	977	485	485	970
Auditors' remuneration:				
- statutory audit	538	706	214	920
- others				
- current year	37	25	15	40
- prior year	38	117	118	235
Office rental	7,642	6,947	6,044	12,991
Equipment rental	318	403	248	651
Depreciation of property, plant and equipment (Note 4)	3,463	3,147	1,084	4,231
Amortisation of intangible assets (Note 5)	1,645	2,056	1,425	3,481
Allowance/(write-back) of impairment of insurance receivables (Note 10)	4	(991)	(1,983)	(2,974)
Training expenses	6,074	1,869	663	2,532
Repairs and maintenance expenses	2,049	2,484	931	3,415
Information technology expenses	825	8,757	17,530	26,287
Advertising, promotional and entertainment expenses	2,235	2,394	18,804	21,198
Motor club expenses	-	-	2,773	2,773
Motor vehicle and travelling expenses	2,728	2,059	4,079	6,138
Printing and stationery expenses	978	1,085	10,986	12,071
Postage, courier and telephone charges	2,407	2,818	1,318	4,136
Management fees	2,480	6,847	1,208	8,055
Other expenses	18,953	16,594	10,184	26,778
Less: Shared service costs recovered from related parties	<u>(34,577)</u>	<u>(4,889)</u>	<u>(16,594)</u>	<u>(21,483)</u>
	<u>18,814</u>	<u>52,913</u>	<u>59,532</u>	<u>112,445</u>
	<u>132,029</u>	<u>126,914</u>	<u>158,161</u>	<u>285,075</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****25. MANAGEMENT EXPENSES (CONTINUED)**

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

	<u>2018</u>		<u>2017</u>	
	<b>RM'000</b>	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>	<b>Total RM'000</b>
Executive Director:				
- other emoluments*	8,977	2,923	974	3,897
- benefits-in-kind	<u>59</u>	<u>16</u>	<u>6</u>	<u>22</u>
	<u>9,036</u>	<u>2,939</u>	<u>980</u>	<u>3,919</u>
Non-Executive Directors:				
- fees	745	386	386	772
- allowances	<u>232</u>	<u>99</u>	<u>99</u>	<u>198</u>
	<u>977</u>	<u>485</u>	<u>485</u>	<u>970</u>
Total	<u>10,013</u>	<u>3,424</u>	<u>1,465</u>	<u>4,889</u>
Represented by:				
Directors' fees	745	386	386	772
Directors' emoluments	9,209	3,022	1,073	4,095
Benefits-in-kind	<u>59</u>	<u>16</u>	<u>6</u>	<u>22</u>
Total	<u>10,013</u>	<u>3,424</u>	<u>1,465</u>	<u>4,889</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****25. 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>2018</b>	<b>2017</b>
<u>Executive Directors:</u>		
RM3,000,001 – RM4,000,000	1	1
RM4,000,001 – RM5,000,000	-	-
RM5,000,001 – RM6,000,000	1	-
<u>Non-Executive Directors:</u>		
RM 1 - RM100,000	1	1
RM100,001 – RM200,000	-	-
RM200,001 – RM300,000	4	4

Included in the remuneration of the Executive Directors is the remuneration attributable to the Chief Executive Officer (“CEO”) of the Company during the financial year amounting to RM9,036,000 (2017: RM3,919,000).

The estimated monetary value of benefits provided to the CEOs during the financial year by way of usage of the Company’s assets was RM59,000 (2017: RM22,000).

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

Philip Wallace Smith  
Stephen Clark  
Choy Khai Choon  
Datin Joan Hoi Lai Ping  
Hasnah binti Omar  
Kevin John Wright

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****25. MANAGEMENT EXPENSES (CONTINUED)**

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

	<b>Other emoluments RM'000</b>	<b>Fees RM'000</b>	<b>Benefits- in-kind RM'000</b>	<b>Total RM'000</b>
<b>2018</b>				
<b>Chief Executive Officer/Executive Director</b>				
Stephen Clark	3,771	-	32	3,803
Philip Smith Wallace	5,206	-	27	5,233
<b>Total</b>	<b>8,977</b>	<b>-</b>	<b>59</b>	<b>9,036</b>
<b>Non-Executive Directors</b>				
Tan Sri Ahmad bin Mohd Don	-	188	45	233
Choy Khai Choon	-	177	49	226
Datin Joan Hoi Lai Ping	-	160	54	214
Hasnah binti Omar	-	160	46	206
Kevin John Wright	-	60	38	98
<b>Total</b>	<b>-</b>	<b>745</b>	<b>232</b>	<b>977</b>
<b>2017</b>				
<b>Chief Executive Officer/Executive Director</b>				
Philip Smith Wallace	3,897	-	22	3,919
<b>Non-Executive Directors</b>				
Tan Sri Ahmad bin Mohd Don	-	240	45	285
Choy Khai Choon	-	160	50	210
Datin Joan Hoi Lai Ping	-	160	46	206
Hasnah binti Omar	-	160	47	207
Kevin John Wright	-	52	10	62
<b>Total</b>	<b>-</b>	<b>772</b>	<b>198</b>	<b>970</b>

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

	<b>2018</b>		<b>2017</b>
	<b>RM'000</b>	<b>Continuing operations RM'000</b>	<b>Discontinued operations RM'000</b>
Realised foreign exchange loss	(46)	(76)	(132)
Other miscellaneous (expenses)/income	(2,613)	(1,929)	4,719
	<b>(2,659)</b>	<b>(2,005)</b>	<b>4,587</b>
			<b>Total RM'000</b>
			(208)
			2,790
			<b>2,582</b>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****27. TAXATION**

	Life fund	Share- holders' fund	Total
	RM'000	RM'000	RM'000
<b>2018</b>			
Current tax	17,873	9,710	27,583
Deferred tax (Note 13)	(6,187)	(23,964)	(30,151)
Tax expense	<u>11,686</u>	<u>(14,254)</u>	<u>(2,568)</u>
Current tax			
Current financial year	18,889	9,718	28,607
Over provision in prior financial years	(1,016)	(8)	(1,024)
	<u>17,873</u>	<u>9,710</u>	<u>27,583</u>
Deferred tax			
Origination and reversal of temporary differences	(6,187)	(23,964)	(30,151)
	<u>11,686</u>	<u>(14,254)</u>	<u>(2,568)</u>
	Continuing operations	Dis-continued operations	
	Life fund	Share-holders' fund	General fund
	RM'000	RM'000	RM'000
<b>2017</b>			
Current tax	30,806	(9,587)	15,551
Deferred tax (Note 13)	10,080	(2,601)	(88)
Tax expense	<u>40,886</u>	<u>(12,188)</u>	<u>15,463</u>
Current tax			
Current financial year	20,845	9,407	15,988
Under/(over) provision in prior financial years	9,961	(18,994)	(437)
	<u>30,806</u>	<u>(9,587)</u>	<u>15,551</u>
Deferred tax			
Origination and reversal of temporary differences	10,080	(2,601)	(88)
	<u>40,886</u>	<u>(12,188)</u>	<u>15,463</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****27. 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>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
(Loss)/profit before taxation	(26,810)	91,741
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	(6,434)	22,018
Effect due to different tax rates	(10,644)	(13,518)
Income not subject to tax	(1,012)	(2,080)
Expenses not deductible for tax purposes	18,676	15,430
Tax impact on investment income attributable to policyholders and unitholders	(2,130)	15,881
	(1,544)	37,731
Over-provision of tax in prior financial years	(1,024)	(9,033)
Tax expense	(2,568)	28,698

The income tax for the Shareholders' fund is calculated based on the corporate tax rate of 24% (2017: 24%) 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% (2017: 8%) of the assessable investment income net of allowable deductions for the financial year.

**28. 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.

**29. EARNINGS PER SHARE**

The basic earnings per ordinary share has been calculated by dividing the net loss or profit for the financial year attributable to equity holders of the Company over the weighted average number of shares of the Company in issue during the financial year.

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.

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Net (loss)/profit attributable to ordinary equity holders:		
- Continuing operations	(24,242)	63,043
- Discontinued operations	-	52,892
	(24,242)	115,935
Weighted average number of shares in issue	579,000	579,000

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****30. CASH FLOWS**

	<b>Note</b>	<b>2018 RM'000</b>	<b>2017 RM'000</b>
<b>Net (loss)/profit for the financial year</b>			
Continuing operations		(24,242)	63,043
Discontinued operations		-	52,892
		<u>(24,242)</u>	<u>115,935</u>
<b>Adjustments:</b>			
Depreciation of property, plant and equipment	4	3,463	3,147
Amortisation of intangible assets	5	1,645	2,056
Write-offs of property, plant and equipment	4	720	-
Write-offs of intangible assets	5	263	-
Investment income	20	(333,268)	(334,168)
Realised (gains)/losses recorded in profit or loss	21	(23,117)	(8,295)
Fair value gains recorded in profit or loss	22	170,024	(95,948)
Allowance/(write-back) of impairment of insurance receivables	25	4	(991)
Tax expense	27	(2,568)	28,698
<b>Changes in working capital:</b>			
Increase in financial assets at fair value through profit or loss		(336,108)	(93,095)
Decrease in available-for-sale financial assets		190,149	116,173
Decrease in loans and receivables		43,186	26,978
Decrease/(increase) in reinsurance assets		1,441	(3,961)
Decrease in insurance receivables		182	3,913
Increase in other receivables		(15,225)	(8,069)
Decrease in insurance contract liabilities		(27,145)	(6,633)
Increase/(decrease) in other liabilities		4,246	(43,071)
Increase in insurance payables		23,325	77,156
Cash utilised in operating activities		<u>(323,025)</u>	<u>(220,175)</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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****31. CAPITAL AND OTHER COMMITMENTS**

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

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Authorised and contracted for:		
- investment properties	<u>409</u>	<u>409</u>

**32. LEASE COMMITMENTS**

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

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>As lessee</u>		
Within one year	10,335	5,875
One year to less than three years	<u>14,371</u>	<u>2,965</u>
	<u>24,706</u>	<u>8,840</u>
<u>As lessor</u>		
Within one year	3,428	2,932
One year to less than five years	<u>419</u>	<u>2,724</u>
	<u>3,847</u>	<u>5,656</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****33. SIGNIFICANT RELATED PARTY DISCLOSURES****(a) Related parties and relationship**

The related parties and their relationship with the Company as at 31 December 2018 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 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 International Life Limited	Subsidiary of ZICL
Zurich Global Investment Management Inc.	Subsidiary of ZICL
Zurich Insurance Company Ltd., Indonesia	Subsidiary of ZICL
Zurich Insurance Company Ltd., Hong Kong	Subsidiary of ZICL
Zurich Insurance Company Ltd., Labuan Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Singapore Branch	Branch office of ZICL
Zurich Insurance Company Ltd., Japan Branch	Branch office of ZICL
Zurich General Insurance Malaysia Berhad	Fellow subsidiary
Zurich General Takaful Malaysia Berhad	Fellow subsidiary
Zurich Takaful Malaysia Berhad	Fellow subsidiary

**(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>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Reinsurance transactions with:		
Zurich Insurance Company Ltd.:		
- Reinsurance premiums paid	-	92,823
- Reinsurance commissions received	-	(7,577)
- Reinsurance claims recovered	-	(14,440)
Zurich Insurance Company Ltd., Labuan Branch:		
- Reinsurance premiums paid	-	11,426
- Reinsurance commissions received	-	(3,211)
- Reinsurance claims recovered	-	(6,801)
Zurich Insurance Company Ltd., Singapore Branch:		
- Reinsurance premiums received	-	(271)
- Reinsurance commissions paid	-	65

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****33. 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>2018 RM'000</b>	<b>2017 RM'000</b>
Rental income received/receivable from:		
- Zurich General Insurance Malaysia Berhad	(4,255)	-
- Zurich Roadside Assistance Malaysia Sdn. Bhd.	(13)	(115)
- Zurich Services Malaysia Sdn. Bhd.	(2)	(547)
- Zurich Shared Services Malaysia Sdn. Bhd.	(417)	(538)
Resource support charges:		
- Zurich Services Malaysia Sdn. Bhd.	366	113
Breakdown services assistance charges paid/ payable to:		
- Zurich Roadside Assistance Malaysia Sdn. Bhd.	-	1,579
Software development, system support, purchase of computer equipment and maintenance fees paid/payable to:		
- Zurich Services Malaysia Sdn. Bhd.	-	16,164
Actuarial support fees:		
- Zurich Shared Services Malaysia Sdn. Bhd.	579	542
Corporate Real Estate & Facility Management Services:		
- Zurich Shared Services Malaysia Sdn. Bhd.	388	888
Reimbursement costs to/(from):		
- Zurich Insurance Company Ltd.	6,039	4,646
- Zurich Financial Services Australia Limited	(6)	-
- Zurich American Insurance Company	-	3,312
- Zurich Services (Hong Kong) Limited	5,888	1,494
- Zurich International Life Limited	216	615
- Zurich Takaful Malaysia Berhad	(24,267)	(27,852)
- Zurich Global Investment Management	(49)	(112)
- Zurich Insurance Company Ltd. Singapore Branch	-	(1)
- Zurich Insurance Company Ltd. Japan Branch	-	(3)
- Zurich Shared Services Malaysia Sdn. Bhd.	(164)	-
- Zurich Insurance Company Ltd., Indonesia	(163)	(164)
- Zurich Services Malaysia Sdn. Bhd.	(126)	-
- Zurich General Insurance Malaysia Berhad	(25,984)	-
- Zurich General Takaful Malaysia Berhad	(6,030)	-

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****33. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)****(b) Related party transactions (continued)**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Business Transferred</u>		
Zurich General Insurance Malaysia Berhad	224,792	-

**(c) Related party balances**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Included in insurance receivables/(payables):</u>		
Zurich Insurance Company Ltd.	-	(81,543)
Zurich Insurance Company Ltd., Labuan Branch	-	4,050
Zurich Insurance Company Ltd., Singapore Branch	-	(2,479)
Zurich Takaful Malaysia Berhad	-	(441)
Zurich Insurance Company Ltd, Hong Kong	-	(8)
<u>Included in other receivables/(payables):</u>		
Zurich Roadside Assistance Malaysia Sdn. Bhd.	40	24
Zurich Insurance Company Ltd.	(85)	(3,657)
Zurich American Insurance Company	-	(831)
Zurich Services (Hong Kong) Limited	(2,790)	(2,920)
Zurich Services Malaysia Sdn. Bhd.	542	7
Zurich Shared Services Malaysia Sdn. Bhd.	(68)	(66)
Zurich Takaful Malaysia Berhad	2,674	5,300
Zurich Global Investment Management	-	56
Zurich Insurance Company Ltd., Indonesia	-	164
Zurich International Life Limited	(48)	(62)
Zurich Financial Services Australia Limiteds	6	14
Zurich General Insurance Malaysia Berhad	6,031	-
Zurich General Takaful Malaysia Berhad	2,584	-

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****33. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)****(d) 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>2018</b> <b>RM'000</b>	<b>2017</b> <b>RM'000</b>
Salaries and other short-term employee benefits	17,815	16,299
Defined contribution retirement benefits	2,134	3,218
	<u>19,949</u>	<u>19,517</u>

The remuneration attributable to the Chief Executive Officer ("CEO") of the Company during the financial year ended 31 December 2018 was RM9,036,000 (2017: RM3,919,000).

The estimated monetary value of benefits provided to CEO during the financial year by way of usage of the Company's assets was RM59,000 (2017: RM22,000).

**34. RISK MANAGEMENT FRAMEWORK****Risk Governance Structure**

The Company adopts three line of defense model approach to governance and enterprise risk management. 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 other various Senior Management Committees, which 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****34. 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 2018 and 31 December 2017.

The regulated capital of the Company as at 31 December 2018 comprised Available Capital of RM1,953,191,000 (2017: RM2,282,519,000).

The capital structure of the Company as at 31 December 2018, as prescribed under the RBC Framework, is shown below:

	<b>31.12.2018</b>	<b>31.12.2017</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>1,326,451</u>	<u>1,616,761</u>
	<u>1,905,451</u>	<u>2,195,761</u>
<b><u>Tier 2 Capital</u></b>		
Assets revaluation reserve	24,910	24,910
Available-for-sale reserve	<u>80,107</u>	<u>95,142</u>
	<u>105,017</u>	<u>120,052</u>
Less:		
Deferred tax assets	<u>(57,277)</u>	<u>(33,294)</u>
<b>Total Capital Available</b>	<u><u>1,953,191</u></u>	<u><u>2,282,519</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

**35. INSURANCE RISK (CONTINUED)**

**Life Insurance Contracts (continued)**

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

	Gross			Reinsurance			Net
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2018</u>							
Life Contracts:							
Whole life	1,268,474	48,478	1,316,952	-	-	-	1,316,952
Endowment	362,169	496,280	858,449	-	-	-	858,449
Term-Mortgage	-	68,401	68,401	-	-	-	68,401
Term-Others	126,136	103,007	229,143	-	-	-	229,143
Term-Medical & Health	-	49,273	49,273	-	-	-	49,273
Term- Other plans	-	773	773	-	-	-	773
Term-Other provision	-	21,000	21,000	(9,486)	(16,075)	(25,561)	(4,561)
Annuity Contracts:							
Immediate annuities	416	-	416	-	-	-	416
Deferred annuities	776,095	-	776,095	-	-	-	776,095
Total Life Insurance	<u>2,533,290</u>	<u>787,212</u>	<u>3,320,502</u>	<u>(9,486)</u>	<u>(16,075)</u>	<u>(25,561)</u>	<u>3,294,941</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

**35. 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 2017</u>							
Life Contracts:							
Whole life	1,332,482	52,413	1,384,895	-	-	-	1,384,895
Endowment	378,274	460,655	838,929	-	-	-	838,929
Term-Mortgage	254	73,980	74,234	-	-	-	74,234
Term-Others	127,024	100,116	227,140	-	-	-	227,140
Term-Medical & Health	-	40,066	40,066	-	-	-	40,066
Term- Other plans	-	683	683	-	-	-	683
Term-Other provision	-	19,000	19,000	(10,365)	(17,074)	(27,439)	(8,439)
Annuity Contracts:							
Immediate annuities	428	-	428	-	-	-	428
Deferred annuities	779,212	-	779,212	-	-	-	779,212
Total Life Insurance	<u>2,617,674</u>	<u>746,913</u>	<u>3,364,587</u>	<u>(10,365)</u>	<u>(17,074)</u>	<u>(27,439)</u>	<u>3,337,148</u>

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



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. 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>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. 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.

	<u>Change in assumptions</u>	<u>Impact on gross life insurance contract liabilities</u>	<u>Impact on net life insurance contract liabilities</u>	<u>Impact on profit before tax</u>	<u>Impact on equity</u>
	<u>%</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31 December 2018</u>					
Mortality/morbidity	+10	60,562	60,096	(60,096)	(53,907)
Mortality/morbidity	-10	(61,939)	(61,462)	61,462	55,762
Expenses	+10	40,418	40,107	(40,107)	(27,960)
Lapse and surrender rates	+10	(27,390)	(27,179)	27,179	1,957
Lapse and surrender rates	-10	30,963	30,724	(30,724)	(1,603)
Investment return	+1	(188,700)	(187,248)	187,248	87,413
Investment return	-1	241,883	240,021	(240,021)	(101,783)
Discount rate	+1	(98,424)	(97,667)	97,667	74,227
Discount rate	-1	137,417	136,360	(136,360)	(86,196)

31 December 2017

Mortality/morbidity	+10	60,710	60,215	(60,215)	(53,588)
Mortality/morbidity	-10	(61,858)	(61,354)	61,354	55,230
Expenses	+10	43,646	43,291	(43,291)	(30,258)
Lapse and surrender rates	+10	(29,710)	(29,468)	29,468	3,504
Lapse and surrender rates	-10	33,674	33,399	(33,399)	(3,334)
Investment return	+1	(189,931)	(188,382)	188,382	93,141
Investment return	-1	250,067	248,027	(248,027)	(107,135)
Discount rate	+1	(96,993)	(96,202)	96,202	73,114
Discount rate	-1	140,636	139,489	(139,489)	(84,085)

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

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. INSURANCE RISK (CONTINUED)****General Insurance Contracts****Discontinued Operations**

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:

	<b>2017</b>		
	<b>Gross</b>	<b>Re- insurance</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fire	45,897	(28,017)	17,880
Motor Vehicle	246,202	(5,060)	241,142
Motor Cycle	103,885	(2,524)	101,361
Marine, Aviation and Transit	14,521	(11,207)	3,314
Miscellaneous	122,997	(86,819)	36,178
At 31 December	<u>533,502</u>	<u>(133,627)</u>	<u>399,875</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. INSURANCE RISK (CONTINUED)****General Insurance Contracts (continued)****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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. INSURANCE RISK (CONTINUED)****General Insurance Contracts (continued)****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.

	<u>Change in assumptions</u>	<u>Impact on gross claims liabilities</u> RM'000	<u>Impact on net claims liabilities</u> RM'000	<u>Impact on profit before tax</u> RM'000	<u>Impact on equity</u> RM'000
Discontinued operations					
<u>31 December 2017</u>					
Average claim cost	+10%	47,105	36,786	(36,786)	(27,957)
Average number of claims	+10%	47,351	35,588	(35,588)	(27,047)

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

**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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. INSURANCE RISK (CONTINUED)****General Insurance Contracts (continued)****Claims Development Table (continued)**

Discontinued operations

Gross General Insurance Contract Liabilities for 2017:

	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Ultimate claims incurred:					288,266	295,848	331,565	362,268	
At end of the accident year				261,232	290,744	292,121	343,585		
One year later			232,759	253,808	289,068	287,165			
Two years later		246,729	227,345	253,611	285,509				
Three years later	275,130	245,610	227,867	254,750					
Four years later	274,422	274,422	243,426	249,477					
Five years later	272,469	272,469	224,531						
Six years later	268,389	236,345							
Seven years later	264,770								
Current estimate of cumulative claims incurred	<u>264,770</u>	<u>236,345</u>	<u>224,531</u>	<u>249,477</u>	<u>285,509</u>	<u>287,165</u>	<u>343,585</u>	<u>362,268</u>	<u>2,253,650</u>
Cumulative claims paid									
At end of accident year	93,598	96,475	87,840	85,438	91,962	106,374	129,917	136,037	
One year later	197,953	179,182	173,198	185,422	200,905	206,290	239,438		
Two years later	238,849	215,146	200,515	215,056	236,670	242,996			
Three years later	252,287	224,262	210,860	229,275	252,331				
Four years later	257,643	227,874	214,947	234,678					
Five years later	259,703	230,153	216,192						
Six years later	261,471	231,798							
Seven years later	261,747								
Cumulative payments to-date	<u>261,747</u>	<u>231,798</u>	<u>216,192</u>	<u>234,678</u>	<u>252,331</u>	<u>242,996</u>	<u>239,438</u>	<u>136,037</u>	<u>1,815,217</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

**35. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Discontinued operations

Gross General Insurance Contract Liabilities for 2017 (continued):

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</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	3,023	4,547	8,339	14,799	33,178	44,169	104,147	226,231	438,433
Direct and facultative inwards prior to assessment year 2010									4,237
Treaty inwards									847
MMIP									34,543
									<u>478,060</u>
									9,941
									45,501
									<u>533,502</u>

**Best Estimate of Claim Liabilities**  
**Claim Handling Expenses**  
**Fund PRAD at 75% Confidence Level**  
**Gross General Insurance Claim Liabilities**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****35. INSURANCE RISK (CONTINUED)****General Insurance Contracts (continued)****Claims Development Table (continued)**

Discontinued operations

Net General Insurance Contract Liabilities for 2017:

	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Ultimate claims incurred:									
At end of the accident year				239,314	265,253	273,974	294,600	299,696	
One year later			206,028	236,089	258,963	270,616	291,877		
Two years later		193,252	204,328	234,080	255,954	265,892			
Three years later	200,255	192,493	204,328	231,678	251,139				
Four years later	200,829	200,829	191,647	225,614					
Five years later	199,854	199,854	201,956						
Six years later	196,793	188,192							
Seven years later	196,280								
Current estimate of cumulative claims incurred	196,280	188,192	201,956	225,614	251,139	265,892	291,877	299,696	1,920,646
Cumulative claims paid									
At end of accident year	72,886	77,832	81,687	82,300	89,042	102,869	121,786	124,360	
One year later	147,061	145,499	157,482	176,527	184,144	197,328	218,725		
Two years later	177,128	174,003	182,494	201,761	217,757	231,243			
Three years later	187,628	180,962	191,805	212,560	231,821				
Four years later	192,257	183,725	195,015	216,591					
Five years later	194,477	184,903	195,976						
Six years later	195,936	185,879							
Seven years later	196,083								
Cumulative payments to-date	196,083	185,879	195,976	216,591	231,821	231,243	218,725	124,360	1,600,678



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

**35. INSURANCE RISK (CONTINUED)**

**General Insurance Contracts (continued)**

**Claims Development Table (continued)**

Discontinued operations

Net General Insurance Contract Liabilities for 2017 (continued):

	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Direct and facultative inwards	197	2,313	5,980	9,023	19,318	34,649	73,152	175,336	319,968
Direct and facultative inwards prior to assessment year 2010									2,960
Treaty inwards									847
MMIP									34,543
									<u>358,318</u>
									9,941
									31,616
									<u>399,875</u>

**Best Estimate of Claim Liabilities**  
**Claim Handling Expenses**  
**Fund PRAD at 75% Confidence Level**  
**Net General Insurance Claim Liabilities**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****36. 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 in this category are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. It includes financial 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, the price of the most recent transactions may be used provided that there has not been a significant change in economic circumstances since the time of the transaction, or if the conditions have changed, that price should be adjusted to reflect the change in conditions by reference to current prices for similar financial instruments and investment in structured products with fair values obtained via investment bankers and/or fund managers.

**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 classes in this category are unquoted equity securities, un-rated securities, investment properties, 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****36. 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>
<u>31 December 2018</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	650,083	-	650,083
- Corporate debt securities	-	4,071,017	1,300	4,072,317
- Equity securities	176,360	-	14,161	190,521
- Unit trusts	3,833	-	-	3,833
FVTPL financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	9,692	-	9,692
- Corporate debt securities	-	142,882	-	142,882
- Equity securities	1,226,442	-	-	1,226,442
- Unit trusts	396,936	21,070	-	418,006
Non-financial assets				
Investment properties	-	-	257,700	257,700
Non-current assets classified as held-for-sale	-	550	-	550
	<u>1,803,571</u>	<u>4,895,294</u>	<u>273,161</u>	<u>6,972,026</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****36. 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>
<u>31 December 2017</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	799,712	-	799,712
- Corporate debt securities	-	4,080,255	1,300	4,081,555
- Equity securities	206,870	-	12,363	219,233
FVTPL financial assets:				
- Malaysian Government Securities/Government Investment Issues	-	12,844	-	12,844
- Corporate debt securities	-	136,932	-	136,932
- Equity securities	1,239,997	475	-	1,240,472
- Unit trusts	82,497	158,807	-	241,304
Non-financial assets				
Investment properties	-	-	258,250	258,250
Assets held for distribution to shareholders	104,219	-	-	104,219
	<u>1,633,583</u>	<u>5,189,025</u>	<u>271,913</u>	<u>7,094,521</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****36. 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>
Disposal group classified as held-for-sale				
<u>31 December 2017</u>				
AFS financial assets:				
- Malaysian Government Securities/Government Investment Issues in unit trust fund	-	121,569	-	121,569
- Corporate debt securities	-	30,306	970	31,276
- Corporate debt securities in unit trust fund	-	569,147	-	569,147
- Equity securities	63,746	-	-	63,746
Non-financial assets				
Investment properties	-	-	11,960	11,960
	<u>63,746</u>	<u>721,022</u>	<u>12,930</u>	<u>797,698</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****36. 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>
<u>31 December 2018</u>				
Financial assets				
Loans and receivables				
- Policy loans	-	266,156	-	266,156
- Mortgage loans	-	6,432	36,813	43,245
- Unsecured loans	-	56	-	56
	<u>-</u>	<u>272,644</u>	<u>36,813</u>	<u>309,457</u>

31 December 2017

Financial assets				
Loans and receivables				
- Policy loans	-	258,456	-	258,456
- Mortgage loans	-	7,130	86,827	93,957
- Unsecured loans	-	66	-	66
	<u>-</u>	<u>265,652</u>	<u>86,827</u>	<u>352,479</u>

Disposal group classified as  
held-for-sale

31 December 2017

Financial assets				
Loans and receivables				
- Mortgage loans	-	119	-	119
- Unsecured loans	-	193	-	193
	<u>-</u>	<u>312</u>	<u>-</u>	<u>312</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****36. 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 2018 and 2017 for recurring fair value measurements:

	<b>AFS</b>	<b>LAR</b>	<b>Investment properties</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January 2017	14,038	86,786	303,490
Addition	-	662	-
Disposals	-	(326)	-
Fair value changes			
- Charged to statement of profit or loss	-	(295)	(45,240)
- Charged to other comprehensive income	(375)	-	-
At 31 December 2017	13,663	86,827	258,250
Addition	-	271	-
Disposals	-	(50,448)	-
Transfer to non-current assets held-for-sale	-	-	(550)
Fair value changes			
- Charged to statement of profit or loss	-	163	-
- Charged to other comprehensive income	1,798	-	-
At 31 December 2018	15,461	36,813	257,700

	<b>AFS</b>	<b>Investment properties</b>
	<b>RM'000</b>	<b>RM'000</b>
Disposal group classified as held-for-sale		
At 1 January 2017	1,940	11,960
Fair value changes		
- Charged to other comprehensive income	(970)	-
At 31 December 2017	970	11,960

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****37. 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>
<u>31 December 2018</u>			
Financial assets:			
Insurance receivables	<u>34,618</u>	<u>(2,925)</u>	<u>31,693</u>
Financial liabilities:			
Insurance payables	<u>1,787,374</u>	<u>(2,925)</u>	<u>1,784,449</u>
<u>31 December 2017</u>			
Financial assets:			
Insurance receivables	<u>33,906</u>	<u>(2,027)</u>	<u>31,879</u>
Financial liabilities:			
Insurance payables	<u>1,763,151</u>	<u>(2,027)</u>	<u>1,761,124</u>
Disposal group classified as held-for-sale			
<u>31 December 2017</u>			
Financial assets:			
Insurance receivables	<u>71,727</u>	<u>(1,937)</u>	<u>69,790</u>
Financial liabilities:			
Insurance payables	<u>126,057</u>	<u>(1,937)</u>	<u>124,120</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 2018 (2017: RM Nil).



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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.

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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
<u>31 December 2018</u>				
AFS financial assets:	7(a)			
- Malaysian Government Securities/Government Investment Issues		650,083	-	650,083
- Corporate debt securities		4,072,317	-	4,072,317
FVTPL financial assets:	7(b)			
- Malaysian Government Securities/Government Investment Issues		-	9,692	9,692
- Corporate debt securities		-	142,882	142,882
Loans and receivables:	8			
- Loans		309,457	-	309,457
Reinsurance assets		31,729	-	31,729
Insurance receivables	10	31,693	-	31,693
Other receivables		29,106	412	29,518
Cash and cash equivalents		161,643	81,390	243,033
		<u>5,286,028</u>	<u>234,376</u>	<u>5,520,404</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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 2017</u>				
AFS financial assets:	7(a)			
- Malaysian Government Securities/Government Investment Issues		799,712	-	799,712
- Corporate debt securities		4,081,555	-	4,081,555
FVTPL financial assets:	7(b)			
- Malaysian Government Securities/Government Investment Issues		-	12,844	12,844
- Corporate debt securities		-	136,932	136,932
Loans and receivables:	8			
- Loans		352,479	-	352,479
Reinsurance assets		33,169	-	33,169
Insurance receivables	10	31,879	-	31,879
Other receivables		15,762	3,905	19,667
Cash and cash equivalents		189,929	81,535	271,464
Assets held for distribution to shareholders	12(c)	106,300	-	106,300
		<u>5,610,785</u>	<u>235,216</u>	<u>5,846,001</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****Credit Risk (continued)****Credit Exposure (continued)**

	<b>Note</b>	<b>Disposal group classified as held-for-sale RM'000</b>
<u>31 December 2017</u>		
AFS financial assets:	12(b)	
- Malaysian Government Securities/Government Investment Issues in unit trust fund		121,569
- Corporate debt securities		31,276
- Corporate debt securities in unit trust fund		569,147
Loans and receivables:	12(b)	
- Loans		312
Reinsurance assets		133,627
Insurance receivables	12(b)	69,790
Other receivables		59,389
Other receivables in unit trust fund		90
Cash and cash equivalents		37,823
Cash and cash equivalents in unit trust fund		18,747
		<u>1,041,770</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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
<b>31 December 2018</b>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	650,083	-	-	-	-	-	-	650,083
- Corporate debt securities	734,121	3,335,688	1,208	-	-	-	1,300	4,072,317
FVTPL financial assets:								
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	9,692	-	-	9,692
- Corporate debt securities	-	-	-	-	142,882	-	-	142,882
Loans and receivables:								
- Loans	-	-	-	272,644	-	978	35,835	309,457
Reinsurance assets	-	-	-	-	-	-	31,729	31,729
Insurance receivables	-	-	-	-	-	27,038	4,655	31,693
Other receivables	-	-	-	29,106	412	-	-	29,518
Cash and cash equivalents	-	161,643	-	-	81,390	-	-	243,033
	<u>1,384,204</u>	<u>3,497,331</u>	<u>1,208</u>	<u>301,750</u>	<u>234,376</u>	<u>28,016</u>	<u>73,519</u>	<u>5,520,404</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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							
	Investment grade		Non- investment grade	Not rated	Unit Linked	Past due but not impaired	Impaired	Total
	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 2017</u>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	799,712	-	-	-	-	-	-	799,712
- Corporate debt securities	820,692	3,258,369	1,194	-	-	-	1,300	4,081,555
FVTPL financial assets:								
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	12,844	-	-	12,844
- Corporate debt securities	-	-	-	-	136,932	-	-	136,932
Loans and receivables:								
- Loans	-	-	-	265,652	-	49,061	37,766	352,479
Reinsurance assets	-	3,865	-	1,866	-	-	27,438	33,169
Insurance receivables	-	-	-	-	-	29,852	2,027	31,879
Other receivables	-	-	-	15,762	3,905	-	-	19,667
Cash and cash equivalents	-	189,929	-	-	81,535	-	-	271,464
Assets held for distribution to shareholders	40,740	65,560	-	-	-	-	-	106,300
	<u>1,661,144</u>	<u>3,517,723</u>	<u>1,194</u>	<u>283,280</u>	<u>235,216</u>	<u>78,913</u>	<u>68,531</u>	<u>5,846,001</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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		Non- investment grade	Not rated	Past due but not impaired	Impaired	Total
	Investment grade						
	Government Guarantee	(AAA to BBB)	(BB to C)				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Disposal group classified as held-for-sale 31 December 2017							
AFS financial assets:							
- Malaysian Government Securities/ Government Investment Issues in unit trust fund	121,569	-	-	-	-	-	121,569
- Corporate debt securities	-	30,306	-	-	-	970	31,276
- Corporate debt securities in unit trust fund	32,940	536,207	-	-	-	-	569,147
Loans and receivables:							
- Loans	-	-	-	312	-	-	312
Reinsurance assets	-	130,467	17	3,143	-	-	133,627
Insurance receivables	-	-	-	-	-	69,790	69,790
Other receivables	-	-	-	59,389	-	-	59,389
Other receivables in unit trust fund	-	-	-	90	-	-	90
Cash and cash equivalents	-	37,823	-	-	-	-	37,823
Cash and cash equivalents in unit trust fund	-	18,747	-	-	-	-	18,747
	<u>154,509</u>	<u>753,550</u>	<u>17</u>	<u>62,934</u>	<u>-</u>	<u>70,760</u>	<u>1,041,770</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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 2018</u>									
AFS financial assets:									
- Malaysian Government Securities/ Government Investment Issues	650,083	-	-	-	-	-	-	-	650,083
- Corporate debt securities	734,121	3,229,603	106,085	-	1,208	-	-	1,300	4,072,317
FVTPL financial assets:									
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	-	-	9,692	-	9,692
- Corporate debt securities	-	-	-	-	-	-	142,882	-	142,882
Loans and receivables:									
- Loans	-	-	-	-	-	273,622	-	35,835	309,457
Reinsurance assets	-	-	-	-	-	-	-	31,729	31,729
Insurance receivables	-	-	-	-	-	27,038	-	4,655	31,693
Other receivables	-	-	-	-	-	29,106	412	-	29,518
Cash and cash equivalents	-	161,643	-	-	-	-	81,390	-	243,033
	<u>1,384,204</u>	<u>3,391,246</u>	<u>106,085</u>	<u>-</u>	<u>1,208</u>	<u>329,766</u>	<u>234,376</u>	<u>73,519</u>	<u>5,520,404</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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 RM'000	AAA to AA RM'000	A1 to A3 RM'000	BBB1 to BBB3 RM'000	BB and below RM'000	Not rated RM'000	Unit Linked RM'000	Impaired RM'000	Total RM'000
<u>31 December 2017</u>									
AFS financial assets:									
- Malaysian Government Securities/ Government Investment Issues	799,712	-	-	-	-	-	-	-	799,712
- Corporate debt securities	820,692	3,156,983	101,386	-	1,194	-	-	1,300	4,081,555
FVTPL financial assets:									
- Malaysian Government Securities/ Government Investment Issues	-	-	-	-	-	-	12,844	-	12,844
- Corporate debt securities	-	-	-	-	-	-	136,932	-	136,932
Loans and receivables:									
- Loans	-	-	-	-	-	314,713	-	37,766	352,479
Reinsurance assets	-	128	3,737	-	-	1,866	-	27,438	33,169
Insurance receivables	-	-	-	-	-	29,852	-	2,027	31,879
Other receivables	-	-	-	-	-	15,762	3,905	-	19,667
Cash and cash equivalents	-	189,929	-	-	-	-	81,535	-	271,464
Assets held for distribution to shareholders	40,740	65,560	-	-	-	-	-	-	106,300
	<u>1,661,144</u>	<u>3,412,600</u>	<u>105,123</u>	<u>-</u>	<u>1,194</u>	<u>362,193</u>	<u>235,216</u>	<u>68,531</u>	<u>5,846,001</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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
Disposal group classified as held-for-sale								
<u>31 December 2017</u>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues in unit trust fund	121,569	-	-	-	-	-	-	121,569
- Corporate debt securities	-	28,677	1,629	-	-	-	970	31,276
- Corporate debt securities in unit trust fund	32,940	531,060	5,147	-	-	-	-	569,147
Loans and receivables:								
- Loans	-	-	-	-	-	312	-	312
Reinsurance assets	-	106,176	24,291	-	17	3,143	-	133,627
Insurance receivables	-	-	-	-	-	-	69,790	69,790
Other receivables	-	-	-	-	-	59,389	-	59,389
Other receivables in unit trust fund	-	-	-	-	-	90	-	90
Cash and cash equivalents	-	37,823	-	-	-	-	-	37,823
Cash and cash equivalents in unit trust fund	-	18,747	-	-	-	-	-	18,747
	<u>154,509</u>	<u>722,483</u>	<u>31,067</u>	<u>-</u>	<u>17</u>	<u>62,934</u>	<u>70,760</u>	<u>1,041,770</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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 two (2017: four) remaining occurrence of rating default events to date since the financial year ended 2005. No credit exposure limits were exceeded during the financial year.

The bondholders are pursuing recovery actions through negotiations and taking legal actions against the issuers for the remaining two (2) corporate debt securities.

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 2018</u>					
Loans and receivables	-	-	-	978	978
Insurance receivables	27,038	-	-	-	27,038
	<u>27,038</u>	<u>-</u>	<u>-</u>	<u>978</u>	<u>28,016</u>
<u>31 December 2017</u>					
Loans and receivables	-	-	518	48,543	49,061
Insurance receivables	29,852	-	-	-	29,852
	<u>29,852</u>	<u>-</u>	<u>518</u>	<u>48,543</u>	<u>78,913</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****Credit Risk (continued)****Impaired Financial Assets**

At 31 December 2018, based on a individual assessment of receivables, there are impaired insurance receivables of RM180,000 (2017: RM176,000). For assets to be classified as “past-due and impaired”, indicators of objective evidence of impairment are contractual payments 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 insurance receivables exhibiting objective evidence of impairment such as 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>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	176	1,167
Allowance/(write-back) for the financial year (Note 25)	4	(991)
At 31 December	<u>180</u>	<u>176</u>
		<b>2017</b>
		<b>RM'000</b>
Disposal group classified as held-for-sale		
At 1 January		9,161
Write-back for the financial year (Note 25)		<u>(1,983)</u>
At 31 December		<u>7,178</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****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. 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**

**38. 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.

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
<u>31 December 2018</u>								
Financial Assets:								
AFS financial assets	4,916,754	414,470	908,199	1,090,615	3,376,128	1,164,820	194,354	7,148,586
FVTPL financial assets	1,797,022	11,245	17,427	30,777	137,732	50,194	1,644,447	1,891,822
Loans and receivables	309,457	304,055	1,403	1,135	1,869	995	-	309,457
Reinsurance assets	31,729	31,729	-	-	-	-	-	31,729
Insurance receivables	31,693	31,693	-	-	-	-	-	31,693
Other receivables	29,518	29,518	-	-	-	-	-	29,518
Cash and cash equivalents	243,033	243,033	-	-	-	-	-	243,033
	<u>7,359,206</u>	<u>1,065,743</u>	<u>927,029</u>	<u>1,122,527</u>	<u>3,515,729</u>	<u>1,216,009</u>	<u>1,838,801</u>	<u>9,685,838</u>

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### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

#### 38. FINANCIAL RISK (CONTINUED)

##### Liquidity Risk (continued)

##### Maturity Profile (continued)

	<u>Carrying value</u> RM'000	<u>Up to a year</u> RM'000	<u>1 - 3 years</u> RM'000	<u>3 - 5 years</u> RM'000	<u>5 - 15 years</u> RM'000	<u>Over 15 years</u> RM'000	<u>No maturity date</u> RM'000	<u>Total</u> RM'000
<u>31 December 2018</u>								
Financial Liabilities:								
Insurance contract liabilities:								
- Life insurance	4,007,271	1,235,142	130,390	96,967	145,833	345,045	2,053,894	4,007,271
Other liabilities	81,402	80,544	618	240	-	-	-	81,402
Insurance payables	<u>1,784,449</u>	<u>1,784,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,784,449</u>
	<u>5,873,122</u>	<u>3,100,135</u>	<u>131,008</u>	<u>97,207</u>	<u>145,833</u>	<u>345,045</u>	<u>2,053,894</u>	<u>5,873,122</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****Liquidity Risk (continued)****Maturity Profile (continued)**

	<u>Carrying value</u> RM'000	<u>Up to a year</u> RM'000	<u>1 - 3 years</u> RM'000	<u>3 - 5 years</u> RM'000	<u>5 - 15 years</u> RM'000	<u>Over 15 years</u> RM'000	<u>No maturity date</u> RM'000	<u>Total</u> RM'000
<u>31 December 2017</u>								
Financial Assets:								
AFS financial assets	5,100,500	368,724	953,948	973,019	3,675,530	1,281,543	219,233	7,471,997
FVTPL financial assets	1,631,552	10,300	19,311	26,268	142,183	48,312	1,481,776	1,728,150
Loans and receivables	352,479	346,170	1,268	1,312	2,817	912	-	352,479
Reinsurance assets	33,169	33,170	-	-	-	-	-	33,170
Insurance receivables	31,879	31,879	-	-	-	-	-	31,879
Other receivables	19,667	19,667	-	-	-	-	-	19,667
Cash and cash equivalents	271,464	271,464	-	-	-	-	-	271,464
Assets held for distribution to shareholders	106,300	25,013	41,138	33,616	20,996	-	-	120,763
	<u>7,547,010</u>	<u>1,106,387</u>	<u>1,015,665</u>	<u>1,034,215</u>	<u>3,841,526</u>	<u>1,330,767</u>	<u>1,701,009</u>	<u>10,029,569</u>
Financial Liabilities:								
Insurance contract liabilities:								
- Life insurance	3,055,716	167,534	154,846	123,919	164,308	320,446	2,124,663	3,055,716
Other liabilities	77,060	76,113	821	78	48	-	-	77,060
Insurance payables	1,761,124	1,761,124	-	-	-	-	-	1,761,124
	<u>4,893,900</u>	<u>2,004,771</u>	<u>155,667</u>	<u>123,997</u>	<u>164,356</u>	<u>320,446</u>	<u>2,124,663</u>	<u>4,893,900</u>



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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****Liquidity Risk (continued)****Maturity Profile (continued)**

	<u>Carrying value</u> RM'000	<u>Up to a year</u> RM'000	<u>1 - 3 years</u> RM'000	<u>3 - 5 years</u> RM'000	<u>5 - 15 years</u> RM'000	<u>Over 15 years</u> RM'000	<u>No maturity date</u> RM'000	<u>Total</u> RM'000
Disposal group classified as held-for-sale								
<u>31 December 2017</u>								
Financial Assets:								
AFS financial assets	95,022	5,544	5,927	5,102	19,218	13,643	63,746	113,180
AFS financial assets in unit trust fund	690,716	68,237	202,541	291,530	264,864	-	-	827,172
Loans and receivables	312	67	118	95	32	-	-	312
Reinsurance assets	133,627	133,627	-	-	-	-	-	133,627
Insurance receivables	69,790	69,790	-	-	-	-	-	69,790
Other receivables	59,389	59,389	-	-	-	-	-	59,389
Other receivables in unit trust fund	90	90	-	-	-	-	-	90
Cash and cash equivalents	37,823	37,823	-	-	-	-	-	37,823
Cash and cash equivalents in unit trust fund	18,747	18,747	-	-	-	-	-	18,747
	<u>1,105,516</u>	<u>393,314</u>	<u>208,586</u>	<u>296,727</u>	<u>284,114</u>	<u>13,643</u>	<u>63,746</u>	<u>1,260,130</u>
Financial Liabilities:								
Insurance contract liabilities:								
- General insurance*	533,502	333,652	177,705	20,923	1,222	-	-	533,502
Other liabilities	96,956	91,653	5,173	130	-	-	-	96,956
Other liabilities in unit trust fund	287	287	-	-	-	-	-	287
Insurance payables	124,120	124,120	-	-	-	-	-	124,120
	<u>754,865</u>	<u>549,712</u>	<u>182,878</u>	<u>21,053</u>	<u>1,222</u>	<u>-</u>	<u>-</u>	<u>754,865</u>

\* exclude premium liabilities

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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 2018</u>				
Property, plant and equipment	-	29,490	-	29,490
Intangible assets	-	2,756	-	2,756
Investment properties	-	257,700	-	257,700
Financial assets:				
- AFS	404,401	4,512,353		4,916,754
- FVTPL	856,702	-	940,320	1,797,022
- LAR	304,055	5,402	-	309,457
Reinsurance assets	31,729	-	-	31,729
Insurance receivables	31,693	-	-	31,693
Other receivables	37,788	-	412	38,200
Tax recoverable	10,035	-	2,577	12,612
Deferred tax assets	57,277	-	-	57,277
Cash and cash equivalents	161,643	-	81,390	243,033
Non-current assets held-for-sale	-	550	-	550
	<u>1,895,323</u>	<u>4,808,251</u>	<u>1,024,699</u>	<u>7,728,273</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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 2017</u>				
Property, plant and equipment	-	17,186	-	17,186
Intangible assets	-	4,525	-	4,525
Investment properties	-	258,250	-	258,250
Financial assets:				
- AFS	470,717	4,629,783	-	5,100,500
- FVTPL	676,632	-	954,920	1,631,552
- LAR	346,170	6,309	-	352,479
Reinsurance assets	33,169	-	-	33,169
Insurance receivables	31,879	-	-	31,879
Other receivables	18,582	-	3,905	22,487
Tax recoverable	9,705	-	-	9,705
Deferred tax assets	33,294	-	-	33,294
Cash and cash equivalents	189,929	-	81,535	271,464
Assets held for distribution to the shareholders	106,300	-	-	106,300
	<u>1,916,377</u>	<u>4,916,053</u>	<u>1,040,360</u>	<u>7,872,790</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****Liquidity Risk (continued)**

The table below summarises the current/non-current classification of assets relating to a disposal group classified as held-for-sale:

	<u>Current*</u>	<u>Non-current</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31 December 2017</u>			
Property, plant and equipment	-	5,564	5,564
Intangible assets	-	2,542	2,542
Investment properties	-	11,960	11,960
Financial assets:			
- AFS	68,779	26,243	95,022
- AFS in unit trust fund	37,864	652,852	690,716
- LAR	67	245	312
Reinsurance assets	201,043	-	201,043
Insurance receivables	69,790	-	69,790
Other receivables	61,200	-	61,200
Other receivables in unit trust fund	90	-	90
Tax recoverable	1,202	-	1,202
Cash and cash equivalents	37,823	-	37,823
Cash and cash equivalents in unit trust fund	18,747	-	18,747
	<u>496,605</u>	<u>699,406</u>	<u>1,196,011</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****Market Risk (continued)****Interest Rates/Profit Yield Risks (continued)**

	<b>Impact on Equity*</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Change in variables:		
<u>Interest rate</u>		
+ 100 basis point – loss	(61,434)	(98,705)
- 100 basis point – gain	193,696	113,875

\* Impact on Equity reflects adjustments for tax, where applicable.

The above impact on equity arose from the investments in fixed income securities which are classified as AFS financial assets. The impact arising from changes in interest rate risk to FVTPL fixed income securities of the investment-linked funds are retained in the insurance contract liabilities, and hence there is no impact on profit before tax.

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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****38. FINANCIAL RISK (CONTINUED)****Market Risk (continued)****Price Risk (continued)**

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.

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.

	<b>Impact on Equity*</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Change in variables:		
<u>FTSE Bursa Malaysia</u>		
FBM KLCI + 15% - gain	15,445	28,731
FBM KLCI – 15% - loss	(15,445)	(28,731)

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 above impact on equity arose from the investments in equities which are classified as AFS financial assets. The impact arising from changes in price risk to FVTPL equities of the DPF fund and investment-linked funds are retained in the insurance contract liabilities, and hence there is no impact on profit before tax.

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

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****39. 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.

**40. 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.



**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. 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 disposal of the Company's General Insurance business was completed on 1 January 2018.

Accordingly, the statement of financial position, statement of profit or loss and the information as cash flows of the General Insurance Fund was classified as discontinued operations for the financial year ended 31 December 2017.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. INSURANCE FUNDS (CONTINUED)****STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2018**

	<b>Life Fund</b>	<b>Share- holders' Fund</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>			
Property, plant and equipment	29,490	-	29,490
Intangible assets	2,756	-	2,756
Investment properties	176,700	81,000	257,700
Investments	6,350,837	672,396	7,023,233
AFS	4,244,358	672,396	4,916,754
FVTPL	1,797,022	-	1,797,022
LAR	309,457	-	309,457
Reinsurance assets	31,729	-	31,729
Insurance receivables	31,693	-	31,693
Other receivables	37,541	659	38,200
Tax recoverable	7,703	4,909	12,612
Non-current assets held-for-sale	550	-	550
Deferred tax assets	-	57,277	57,277
Cash and cash equivalents	229,784	13,249	243,033
<b>Total assets</b>	<b>6,898,783</b>	<b>829,490</b>	<b>7,728,273</b>
<b>Equity, policyholders' funds and liabilities</b>			
Share capital	-	579,000	579,000
Retained earnings	442,700	241,083	683,783
Other reserves	27,986	8,323	36,309
<b>Total equity</b>	<b>470,686</b>	<b>828,406</b>	<b>1,299,092</b>
Insurance contract liabilities	4,436,963	-	4,436,963
Deferred tax liabilities	118,749	-	118,749
Other liabilities	80,868	534	81,402
Insurance payables	1,784,449	-	1,784,449
Current tax liabilities	5,088	2,530	7,618
<b>Total liabilities</b>	<b>6,426,117</b>	<b>3,064</b>	<b>6,429,181</b>
<b>Total equity, policyholders' funds and liabilities</b>	<b>6,896,803</b>	<b>831,470</b>	<b>7,728,273</b>
<b>Inter-fund balances</b>	<b>1,980</b>	<b>(1,980)</b>	<b>-</b>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. INSURANCE FUNDS (CONTINUED)****STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2017**

				Disposal group classified as held-for-sale
	Life Fund	Share- holders' Fund	Total	General Fund
	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>				
Property, plant and equipment	17,186	-	17,186	5,564
Intangible assets	4,525	-	4,525	2,542
Investment properties	177,250	81,000	258,250	11,960
Investments	6,367,575	716,956	7,084,531	786,050
AFS	4,383,544	716,956	5,100,500	785,738
FVTPL	1,631,552	-	1,631,552	-
LAR	352,479	-	352,479	312
Reinsurance assets	33,169	-	33,169	201,043
Insurance receivables	31,879	-	31,879	69,790
Other receivables	22,223	264	22,487	61,290
Tax recoverable	4,796	4,909	9,705	1,202
Deferred tax assets	-	33,294	33,294	-
Cash and cash equivalents	256,436	15,028	271,464	56,570
Assets held for distribution to the Shareholders	-	106,300	106,300	-
<b>Total assets</b>	<b>6,915,039</b>	<b>957,751</b>	<b>7,872,790</b>	<b>1,196,011</b>
<b>Equity, policyholders' funds and liabilities</b>				
Share capital	-	579,000	579,000	-
Retained earnings	417,772	515,045	932,817	-
Other reserves	27,836	8,384	36,220	9,646
<b>Total equity</b>	<b>445,608</b>	<b>1,102,429</b>	<b>1,548,037</b>	<b>9,646</b>
Insurance contract liabilities	4,471,684	-	4,471,684	842,033
Deferred tax liabilities	125,399	-	125,399	4,087
Other liabilities	75,941	1,119	77,060	97,243
Insurance payables	1,761,124	-	1,761,124	124,120
Current tax liabilities	5,503	2,509	8,012	356
<b>Total liabilities</b>	<b>6,439,651</b>	<b>3,628</b>	<b>6,443,279</b>	<b>1,067,839</b>
<b>Total equity, policyholders' funds and liabilities</b>	<b>6,885,259</b>	<b>1,106,057</b>	<b>7,991,316</b>	<b>1,077,485</b>
<b>Inter-fund balances</b>	<b>29,780</b>	<b>(148,306)</b>	<b>(118,526)</b>	<b>118,526</b>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. INSURANCE FUNDS (CONTINUED)****STATEMENT OF PROFIT OR LOSS BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	<b>Life Fund</b>	<b>Share- holders' Fund</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross earned premiums	786,381	-	786,381
Premiums ceded to reinsurers	(58,407)	-	(58,407)
<b>Net earned premiums</b>	<b>727,974</b>	<b>-</b>	<b>727,974</b>
Investment income	301,536	31,732	333,268
Realised gains and losses	15,496	7,621	23,117
Fair value gains and losses	(170,024)	-	(170,024)
Fee and commission income	5,866	-	5,866
<b>Other revenue</b>	<b>152,874</b>	<b>39,353</b>	<b>192,227</b>
<b>Total revenue</b>	<b>880,848</b>	<b>39,353</b>	<b>920,201</b>
Gross benefits and claims paid	(773,774)	-	(773,774)
Claims ceded to reinsurers	51,361	-	51,361
Gross change to contract liabilities	27,145	-	27,145
Change in contract liabilities ceded to reinsurers	(1,440)	-	(1,440)
<b>Net claims</b>	<b>(696,708)</b>	<b>-</b>	<b>(696,708)</b>
Fee and commission expenses	(115,615)	-	(115,615)
Management expenses	(129,823)	(2,206)	(132,029)
Other operating income/(expenses) – net	(1,759)	(900)	(2,659)
<b>Other expenses</b>	<b>(247,197)</b>	<b>(3,106)</b>	<b>(250,303)</b>
(Loss)/profit before taxation	(63,057)	36,247	(26,810)
Temporary funding from/(to)	99,671	(99,671)	-
Taxation	(11,686)	14,254	2,568
<b>Net profit/(loss) for the financial year</b>	<b>24,928</b>	<b>(49,170)</b>	<b>(24,242)</b>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. INSURANCE FUNDS (CONTINUED)****STATEMENT OF PROFIT OR LOSS BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<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	782,759	-	782,759	645,893
Premiums ceded to reinsurers	(60,831)	-	(60,831)	(116,339)
<b>Net earned premiums</b>	<b>721,928</b>	<b>-</b>	<b>721,928</b>	<b>529,554</b>
Investment income	298,181	35,987	334,168	27,332
Realised gains and losses	8,159	136	8,295	3,246
Fair value gains and losses	109,688	(13,740)	95,948	(932)
Fee and commission income	6,263	-	6,263	13,869
<b>Other revenue</b>	<b>422,291</b>	<b>22,383</b>	<b>444,674</b>	<b>43,515</b>
<b>Total revenue</b>	<b>1,144,219</b>	<b>22,383</b>	<b>1,166,602</b>	<b>573,069</b>
Gross benefits and claims paid	(890,495)	-	(890,495)	(316,016)
Claims ceded to reinsurers	47,310	-	47,310	30,674
Gross change to contract liabilities	6,633	-	6,633	(36,831)
Change in contract liabilities ceded to reinsurers	3,942	-	3,942	43,738
<b>Net claims</b>	<b>(832,610)</b>	<b>-</b>	<b>(832,610)</b>	<b>(278,435)</b>
Fee and commission expenses	(113,332)	-	(113,332)	(72,705)
Management expenses	(122,766)	(4,148)	(126,914)	(158,161)
Other operating income/(expenses) – net	(500)	(1,505)	(2,005)	4,587
<b>Other expenses</b>	<b>(236,598)</b>	<b>(5,653)</b>	<b>(242,251)</b>	<b>(226,279)</b>
Profit before taxation	75,011	16,730	91,741	68,355
Transfer from/(to):				
- General insurance	-	52,892	52,892	(52,892)
Temporary funding (to)/from	(5,301)	5,301	-	-
Taxation	(40,886)	12,188	(28,698)	(15,463)
<b>Net profit for the financial year</b>	<b>28,824</b>	<b>87,111</b>	<b>115,935</b>	<b>-</b>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. INSURANCE FUNDS (CONTINUED)****GENERAL INSURANCE FUND REVENUE ACCOUNT BY CLASSES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017****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	100,165	297,435	121,020	8,154	119,119	645,893
Premiums ceded to reinsurers	(65,335)	(8,597)	(3,376)	(5,884)	(33,147)	(116,339)
<b>Net earned premiums</b>	<b>34,830</b>	<b>288,838</b>	<b>117,644</b>	<b>2,270</b>	<b>85,972</b>	<b>529,554</b>
Gross commission paid	(7,542)	(33,403)	(14,479)	(710)	(16,571)	(72,705)
Commission received from reinsurers	5,013	1,257	523	817	6,259	13,869
<b>Net commissions</b>	<b>(2,529)</b>	<b>(32,146)</b>	<b>(13,956)</b>	<b>107</b>	<b>(10,312)</b>	<b>(58,836)</b>
Gross benefits and claims paid	(28,030)	(199,442)	(41,150)	(4,781)	(42,613)	(316,016)
Claims ceded to reinsurers	11,116	4,738	1,034	3,991	9,795	30,674
Gross change to contract liabilities	(5,546)	24,790	(21,542)	2,086	(36,619)	(36,831)
Change in contract liabilities ceded to reinsurers	8,240	(454)	480	(850)	36,322	43,738
<b>Net claims</b>	<b>(14,220)</b>	<b>(170,368)</b>	<b>(61,178)</b>	<b>446</b>	<b>(33,115)</b>	<b>(278,435)</b>
Underwriting surplus before management expenses	18,081	86,324	42,510	2,823	42,545	192,283
Management expenses						(158,161)
Underwriting surplus						34,122
Investment income						27,332
Realised gains						3,284
Fair value losses						(970)
Other operating income - net						4,587
Profit before taxation						68,355
Taxation						(15,463)
<b>Net profit for the financial year</b>						<b>52,892</b>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. INSURANCE FUNDS (CONTINUED)****INVESTMENT-LINKED FUND****STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>		
Investments		
FVTPL	940,320	954,920
Other receivables	412	3,905
Tax recoverable	2,577	-
Cash and cash equivalents	81,390	81,535
<b>Total assets</b>	<b>1,024,699</b>	<b>1,040,360</b>
<b>Liabilities</b>		
Deferred tax liabilities	3,908	7,464
Other liabilities	1,658	3,343
Current tax liabilities	-	77
<b>Total liabilities</b>	<b>5,566</b>	<b>10,884</b>
<b>Inter-fund balances</b>	<b>8,193</b>	<b>4,412</b>
<b>Net asset value attributable to unitholders (Note 16)</b>	<b>1,010,940</b>	<b>1,025,064</b>

**INVESTMENT-LINKED FUND STATEMENT OF PROFIT OR LOSS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Investment income	34,062	33,214
Fair value gains and losses	(80,998)	73,997
	(46,936)	107,211
Fee and commission expenses	(15,940)	(14,235)
Management expenses	(48)	(47)
Other operating income – net	1,664	1,309
(Loss)/profit before taxation	(61,260)	94,238
Taxation	5,092	(6,665)
<b>Net (loss)/profit for the financial year</b>	<b>(56,168)</b>	<b>87,573</b>

**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****41. INSURANCE FUNDS (CONTINUED)****INFORMATION ON CASH FLOWS BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	Life Fund RM'000	Share- holders' Fund RM'000	Total RM'000
<b>2018</b>			
Cash flows from:			
Operating activities	(14,722)	(1,779)	(16,501)
Investing activities	(11,930)	-	(11,930)
Net decrease in cash and cash equivalents	(26,652)	(1,779)	(28,431)
Cash and cash equivalents:			
At beginning of the financial year	256,436	15,028	271,464
At end of the financial year	229,784	13,249	243,033

	Continuing operations			Dis- continued operations
	Life Fund RM'000	Share- holders' Fund RM'000	Total RM'000	General Fund RM'000
<b>2017</b>				
Cash flows from:				
Operating activities	82,943	11,194	94,137	35,808
Investing activities	(6,969)	-	(6,969)	(2,762)
Net increase in cash and cash equivalents	75,974	11,194	87,168	33,046
Cash and cash equivalents:				
At beginning of the financial year	180,462	5,915	186,377	23,524
Transfer to assets held for distribution to the shareholders	-	(2,081)	(2,081)	-
At end of the financial year	256,436	15,028	271,464	56,570*

\* Comprising :

	RM'000
Cash and cash equivalents in:	
- Unit trust fund controlled by the Company (Note 12(b)(i))	18,747
- Other assets of a disposal group classified as held-for-sale (Note 12(b)(ii))	37,823
	56,570



**ZURICH LIFE INSURANCE MALAYSIA BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****42. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR**

On 1 January 2018, the assets and liabilities of the General insurance fund and certain assets of the Shareholders' fund comprising bonds and cash were transferred to Zurich General Insurance Malaysia Berhad ("ZGIMB") in accordance with the Business Transfer Scheme between the Company and ZGIMB which was approved and confirmed by the High Court of Malaya on 5 December 2017 in accordance with the FSA.

**43. ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 INSURANCE CONTRACT LIABILITIES**

The Company has applied the temporary exemption from the adoption of MFRS 9 "Financial Instruments" from 1 January 2018 to no later than 1 January 2021 (see Note 2.1).

In order to compare with entities applying MFRS 9, the amendments require deferring entities to disclose additional information including contractual cash flows characteristics and credit exposure of the financial assets. The following table presents the Company's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI").

- (a) The following table shows the carrying amount under MFRS 139 for financial assets with SPPI cash flows analysed by credit quality:

	Government Guarantee RM'000	AAA to AA RM'000	A1 to A3 RM'000	BB and below RM'000	Impaired RM'000	Total RM'000
<b>31 December 2018</b>						
AFS investments:						
Malaysian Government Securities/ Government Investment Issues	650,083	-	-	-	-	650,083
Corporate debt securities	734,121	3,229,603	106,085	1,208	1,300	4,072,317
	<u>1,384,204</u>	<u>3,229,603</u>	<u>106,085</u>	<u>1,208</u>	<u>1,300</u>	<u>4,722,400</u>

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)****43. ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 INSURANCE CONTRACT LIABILITIES (CONTINUED)**

(b) Fair value/carrying amount:

	<b>Financial assets with SPPI cash flows</b>	<b>Other financial assets</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fair value at 31 December 2018	4,722,400	2,645,488	7,367,888
Fair value changes during the financial year	10,451	872	11,323
Financial assets that do not have low credit risk:			
- Fair value/carrying amount at 31 December 2018 under MFRS 139	2,508	N/A	N/A

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