



2016

FINANCIAL
STATEMENTS

31 December 2016

Together with Director's and Auditor's Reports
(In Ringgit Malaysia)

**Prudential Assurance Malaysia
Berhad**

(Company No. 107655-U)
(Incorporated in Malaysia)

**Financial Statements –
31 December 2016
Together with Directors' and
Auditors' Reports**
(In Ringgit Malaysia)

Prudential Assurance Malaysia Berhad

(Company No. 107655-U)

(Incorporated in Malaysia)

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Prudential Assurance Malaysia Berhad

(Company No. 107655-U)
(Incorporated in Malaysia)

Directors' report for the year ended 31 December 2016

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

Principal activities

The Company is principally involved in the underwriting of life insurance business, which includes linked business and, related thereto, the investment of funds and general insurance business. There has been no significant change in the nature of these principal activities during the year.

Ultimate holding company

The ultimate holding company is Prudential plc., a company incorporated in the United Kingdom which is listed on the London, New York, Hong Kong and Singapore Stock Exchanges.

Results

	RM'000
Net profit for the year	<u>477,546</u>

Reserves and provisions

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

Insurance liabilities

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 Part D of the Risk-Based Capital Framework ("RBC Framework").

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Dividends

Since the end of the previous financial year, the amount of dividends paid by the Company were as follows:

i) In respect of the financial year ended 31 December 2015:

- a final single tier dividend of 380% totalling RM380.0 million declared on 24 May 2016 and paid on 31 May 2016.

ii) In respect of the financial year ended 31 December 2016:

- an interim single tier dividend of 195% totalling RM195.0 million declared and paid on 28 November 2016.

As at the date of financial statements, the Directors do not recommend any final dividend to be paid for the financial year under review.

Directors of the Company

Directors who served during the financial year until the date of this report are:

Ho Yik

Abdul Khalil bin Abdul Hamid

Richard Patrick George Duxbury

Kevin Lee Holmgren

Gan Leong Hin

Lilian Lup-Yin Ng

Soon Dee Hwee (Appointed w.e.f. 7 March 2016)

Chan Wan Siew (Resigned w.e.f. 24 January 2016)

Dato' Dr Gan Khuan Poh @ Gan Miew Chee (Resigned w.e.f. 17 February 2017)

Company No. 107655-U

Statement on corporate governance and internal controls

The Board of Directors (the Board) is committed to comply with the Policy Document on Corporate Governance, BNM/RH/PD 029-9 issued by Bank Negara Malaysia (BNM). The Board and the Chief Executive Officer (CEO) are collectively responsible for the proper stewardship of Prudential Assurance Malaysia Berhad (the Company) by ensuring the achievement of its corporate objectives, promoting sustainable growth and financial soundness as well as for ensuring reasonable standards of fair dealing without undue influence from any party whilst inculcating sound corporate governance. This includes a consideration of the long term implications of the Board's decisions on the Company and its customers, officers and the general public.

1 Board of Directors

(a) Roles and Responsibilities of the Board

The Board is responsible for approving the Company's strategic plans and key policies, whilst providing effective oversight of the Management's performance, risk assessment and controls over business operations. The Board applies high ethical standards in their decision making taking into account the interests of all stakeholders.

The principle responsibilities of the Board as prescribed in the Terms of Reference of the Board include the following:

- (i) Safeguard the credibility and reputation of the Company by ensuring the management team and all employees conduct business with highest levels of integrity.
- (ii) Adhere to the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia.
- (iii) Promote, together with senior management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour.
- (iv) Oversee the selection, performance and remuneration and succession plans for the CEO, Control Function Heads and other members of the Senior Management Team such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Company.
- (v) Supervise the affairs of the Company to ensure sound management by:
 - (a) Ensuring at all times, the assets are properly managed to meet its liabilities and in compliance with the relevant legal and regulatory requirements.
 - (b) Being well informed of the affairs of the Company by monitoring and supervising the affairs of the Company.
 - (c) Retaining minutes of Board meetings and record of actions by directors in connection with their oversight responsibilities.

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Statement on corporate governance and internal controls (continued)

1 Board of Directors (continued)

(a) Roles and Responsibilities of the Board (continued)

- (vi) Review and approve key policies, objectives and a clear framework that covers critical areas, including but not limited to solvency management, underwriting, claims management, reinsurance, investment, loans, risk management, financial planning and budgeting, and human resource management. To set clear lines of authority (and limits to this authority) for all levels of staff.
- (vii) Adhere to the relevant disclosure requirements prescribed by the Companies Act 2016, Financial Services Act 2013 and BNM Guidelines.
- (viii) Promote timely and effective communication between the Company and BNM on matters affecting or that may affect the safety and soundness of the Company.
- (ix) Undertake various functions and responsibilities as specified by the Company in the guidelines and directives issued by the regulatory authorities from time to time.
- (x) Observe all laws, rules and regulations as part of their statutory duties and be familiar with relevant laws, related regulations, interpretative rulings and notices and exercise care to see that these are not violated.

The Board members are provided with regular updates on key aspects of the Company's financials and operations including changes to regulatory requirements. Prior to each Board meeting, the Board members are provided with Notice of Board meetings and Board papers for each agenda items in advance to enable the Directors sufficient time to properly consider the issues and be prepared for discussion. Any additional information requested by the Directors is made available to them in a timely manner.

(b) Board Size and Composition

The Board comprised of eight (8) members including the Chairman as at the end of the financial year 2016. The Board size is conducive to decision making and is appropriate given the size of the Company's operations. The composition of the Board remains adequate to provide for a diversity of views, facilitate effective decision making, and appropriate balance of executive, non-executive, independent and non-independent directors.

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Statement on corporate governance and internal controls (continued)

1 Board of Directors (continued)

(b) Board Size and Composition (continued)

The composition of the Board during the financial year 2016 and up to the date of this report is as follows:

No.	Name	Designation	Appointment/ Resignation
1.	Lilian Lup-Yin Ng	Chairman Non-Independent Non-Executive Director	Resigned as Chairman w.e.f. 1 January 2017
2.	Ho Yik	Member Non-Independent Non-Executive Director	-
3.	Abdul Khalil bin Abdul Hamid	Member Independent Non-Executive Director	Appointed as Chairman w.e.f. 1 January 2017
4.	Dato' Dr Gan Khuan Poh @ Gan Miew Chee	Member Independent Non-Executive Director	Resigned w.e.f. 17 February 2017
5.	Richard Patrick George Duxbury	Member Independent Non-Executive Director	-
6.	Kevin Lee Holmgren	Member Independent Non-Executive Director	-
7.	Soon Dee Hwee	Member Independent Non-Executive Director	Appointed w.e.f. 7 March 2016
8.	Chan Wan Siew	Member Independent Non-Executive Director	Resigned w.e.f. 24 January 2016
9.	Gan Leong Hin	Member Executive Director/Chief Executive Officer	-

(c) Profile of Directors

The Board members are nominated based on diverse background, mix of skills, experience and other core competencies to carry out effective oversight of the Company's operations in order to achieve its corporate objectives and fulfil its fiduciary responsibilities.

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Statement on corporate governance and internal controls (continued)

1 Board of Directors (continued)

(c) Profile of Directors (continued)

A brief background of each Director who served on the Board during the financial year 2016 is appended below:

(i) Lilian Lup-Yin Ng
Non-Independent Non-Executive Director/Chairman

Lilian Lup-Yin Ng, age 52, was the Chairman of the Company. Mdm. Ng joined Prudential Assurance Company Limited (Hong Kong branch) in 1994 and has spent 20 years with Prudential since. She was appointed as the Chief Executive, Insurance of Prudential Corporation Asia (PCA) in June 2015. As the Chief Executive, Insurance of PCA, Mdm. Ng is tasked with the overall responsibility of managing Prudential's network of insurance business units in Asia.

(ii) Ho Yik
Non-Independent Non-Executive Director

Ho Yik, age 80, is a Non-Independent Non-Executive Director of the Company. Mr. Ho joined the Company in 1968 and was part of the management team until his appointment as a Director of the Company since 1985 until to-date.

Mr. Ho currently serves as a Board member of Rockwills Trustees Berhad, Rockwills Trustees Limited, The Wesleyan Community Berhad and Winning Formation Sdn. Bhd.

(iii) Abdul Khalil bin Abdul Hamid
Independent Non-Executive Director

Abdul Khalil bin Abdul Hamid, age 61, is an Independent Non-Executive Director of the Company. En. Abdul Khalil has worked in the financial industry since 1980 until his retirement in 2013. His career included leadership roles in AFFIN Bank Berhad and the Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad.

En. Abdul Khalil currently serves as a Board member of Prudential BSN Takaful Berhad and Kuwait Finance House (Malaysia) Berhad.

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Statement on corporate governance and internal controls (continued)

1 Board of Directors (continued)

(c) Profile of Directors (continued)

(iv) **Dato' Dr Gan Khuan Poh @ Gan Miew Chee**
Independent Non-Executive Director

Dato' Dr. Gan Khuan Poh, age 72, was an Independent Non-Executive Director of the Company. Dato' Dr. Gan has had a notable career with the Government of Malaysia, primarily in the field of economic policymaking and planning. He served the Government since 1967 and became the Senior Director, Macroeconomics before he left to continue his career in the private sector in 1997.

Dato' Dr. Gan is also a Board member of Permodalan BSN Berhad.

(v) **Richard Patrick George Duxbury**
Independent Non-Executive Director

Richard Patrick George Duxbury, age 71, is an Independent Non-Executive Director of the Company. Mr Duxbury has had various senior appointments undertaken during a long and rewarding career with Friends Life Group from 1974 to 2012. Mr. Duxbury was subsequently appointed as a Board member of AmLife Insurance Berhad and AmFamily Takaful Berhad from 2008 to 2012.

Mr. Duxbury has no external directorships to-date.

(vi) **Kevin Lee Holmgren**
Independent Non-Executive Director

Kevin Lee Holmgren, age 57, is an Independent Non-Executive Director of the Company. Mr. Holmgren joined Prudential as the CEO of PT Prudential Life Assurance, Indonesia in January 2001. He was subsequently made the Co-Chief Operating Officer of Prudential Corporation Asia (PCA), Hong Kong from June 2003 until October 2005, after which he returned to PT Prudential Life Assurance, Indonesia as the CEO for another 4 and a half years. Mr. Holmgren was last appointed as the CEO of Prudential Assurance Corporation Singapore from January 2011 until January 2013.

Mr. Holmgren has no external directorships to-date.

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Statement on corporate governance and internal controls (continued)

1 Board of Directors (continued)

(c) Profile of Directors (continued)

- (vii) Soon Dee Hwee**
Independent Non-Executive Director

Soon Dee Hwee, age 56, is an Independent Non-Executive Director of the Company. She is a Chartered Accountant registered with the Malaysian Institute of Accountants. Mdm. Soon is currently the Senior Vice President of Corporate Affairs and Investments of Hwang Capital (Malaysia) Berhad Group since April 2014 until to-date.

Mdm. Soon currently serves as a Board member of Bison Consolidated Berhad and Asian Pac Holdings Berhad.

- (viii) Chan Wan Siew**
Independent Non-Executive Director

Chan Wan Siew, age 66, was an Independent Non-Executive Director of the Company. As at the date of his appointment on 25 January 2013, Mr. Chan is a member of the Chartered Accountants Malaysia, a Fellow Member of the Association of Chartered Certified Accountants (UK) and Certified Practising Accountant, Australia (CPA Australia). Mr. Chan is also an active contributor to various corporate and professional sectors such as the Federation of Public Listed Companies (FPLC) and the Malaysian Institute of Accountants (MIA).

Mr. Chan is a Senior Independent Non-Executive Director on the Board of Luxchem Corporation Berhad and Integrax Berhad. He is also a Board member of Prestariang Berhad, the Malaysian Alliance of Corporate Directors (MACD) and the President of Business Transitions Asia Sdn. Bhd.

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Statement on corporate governance and internal controls (continued)

1 Board of Directors (continued)

(c) Profile of Directors (continued)

(ix) Gan Leong Hin

Executive Director/Chief Executive Officer

Gan Leong Hin, age 58, is the Executive Director/CEO of the Company. He began his career with AMP Limited, Australia in 1982 and was last the Regional Chief Actuary before he joined Manulife Financial, Asia, Hong Kong (Manulife) in 2004. Mr. Gan served Manulife for 9 years. He resigned from his Chief Financial Officer (CFO) and Vice President posts in Manulife and was subsequently appointed as the CFO of the Company in April 2013. Mr. Gan was appointed as the Executive Director/CEO of the Company on 26 November 2015.

Mr. Gan currently serves as a Board member of Prudential BSN Takaful Berhad and Malaysian Life Reinsurance Group Berhad.

All the Board members do not hold any shares in the Company.

(d) Training and Education provided to the Board

Members of the Board possess the necessary qualifications and experience to discharge their duties and responsibilities effectively. They are also continually assessed to ensure that they meet the fit and proper criteria prescribed under the BNM Guideline on Fit and Proper Criteria (BNM/RH/GL 018-5) and Section 60 of the Financial Services Act 2013 (“FSA”).

Members of the Board have attended training programmes and dialogues organised by the I Leadership and Governance Centre and the Financial Institutions Directors’ Education (FIDE) Forum. The Company is a registered corporate member of the FIDE Forum since 2012 and the Board has continuous access to the many discussion sessions organised by FIDE Forum throughout the year.

The Board also participates in Directors’ Briefing Sessions organised by the Company Secretariat with the aim of enhancing the Board’s understanding and knowledge of actuarial and investment reports, amongst others.

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Statement on corporate governance and internal controls (continued)

1 Board of Directors (continued)

(d) Training and Education provided to the Board (continued)

An induction programme is also available for newly appointed Directors. The new Directors are provided with a comprehensive information pack which contains the relevant laws and regulations on their roles and responsibilities, Terms of References of the Board and its Committees, Fit and Proper Policy and Procedures, Age and Tenure Policy, Code of Ethics and the Company's strategic plans for the year. New Board members are also provided with the opportunity to meet with selected members of the Executive Committee to discuss the Company's operations. The Company Secretary facilitates the induction program by providing access to documentation on finance, strategic planning, operations and risk management, amongst others to assist the new Board Member during their familiarisation session.

Members of the Board are subject to retirement by rotation and re-election pursuant to Article 66A of the Articles of Association.

2 Board Committees

The Board has established the following Board Committees to assist in the management of the Company's business and discharge of its duties:

- (i) Audit Committee
- (ii) Risk Management Committee
- (iii) Nominating Committee
- (iv) Remuneration Committee

(i) Audit Committee

No.	Name	Designation
1.	Dato' Dr Gan Khuan Poh @ Gan Miew Chee <i>(Resigned as Chairman and member w.e.f. 17 February 2017)</i>	Chairman
2.	Abdul Khalil bin Abdul Hamid	Member
3.	Ho Yik	Member
4.	Chan Wan Siew <i>(Resigned as member w.e.f. 24 January 2016)</i>	Member
5.	Richard Patrick George Duxbury	Member
6.	Kevin Lee Holmgren	Member
7.	Soon Dee Hwee <i>(Appointed as a member w.e.f. 7 March 2016 and Chairman w.e.f. 18 February 2017)</i>	Member

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Statement on corporate governance and internal controls (continued)

2 Board Committees (continued)

(i) Audit Committee (continued)

Roles and Responsibilities of the Audit Committee

The Audit Committee is responsible for reviewing the Company's financial statements and for the effectiveness of the Company's internal control and risk management systems. The Audit Committee also monitors the effectiveness and objectivity of the internal and external auditors. The Audit Committee meets at least once every quarter to review the reports submitted by the Internal Audit team, Compliance team and the external auditor.

(ii) Risk Management Committee

No.	Name	Designation
1.	Dato' Dr Gan Khuan Poh @ Gan Miew Chee <i>(Resigned as Chairman and member w.e.f. 17 February 2017)</i>	Chairman
2.	Abdul Khalil bin Abdul Hamid	Member
3.	Ho Yik	Member
4.	Chan Wan Siew <i>(Resigned as member w.e.f. 24 January 2016)</i>	Member
5.	Richard Patrick George Duxbury <i>(Appointed as Chairman w.e.f. 18 February 2017)</i>	Member
6.	Kevin Lee Holmgren	Member
7.	Lilian Lup-Yin Ng <i>(Resigned as member w.e.f. 24 February 2017)</i>	Member
8.	Soon Dee Hwee <i>(Appointed as a member w.e.f. 7 March 2016)</i>	Member

Roles and Responsibilities of the Risk Management Committee

The Risk Management Committee is responsible for the overall risk oversight of the effectiveness of the Company's Risk Framework. The Risk Management Committee shall provide leadership, direction and oversight with regard to the Company's overall risk appetite and tolerance and risk management framework which includes risk and business continuity management policies, processes and controls. The Risk Management Committee will also oversee senior officers in managing key risk areas and ensure that an appropriate risk management process is in place and functioning effectively. The Risk Management Committee meets at least once every quarter to review the Management's reports on risk exposure and risk management activities.

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Statement on corporate governance and internal controls (continued)

2 Board Committees (continued)

(iii) Nominating Committee

No.	Name	Designation
1.	Abdul Khalil bin Abdul Hamid (<i>Resigned as Chairman w.e.f. 1 January 2017</i>)	Chairman
2.	Ho Yik	Member
3.	Dato' Dr Gan Khuan Poh @ Gan Miew Chee (<i>Resigned as member w.e.f. 17 February 2017</i>)	Member
4.	Chan Wan Siew (<i>Resigned as member w.e.f. 24 January 2016</i>)	Member
5.	Richard Patrick George Duxbury (<i>Appointed as Chairman w.e.f. 1 January 2017</i>)	Member
6.	Kevin Lee Holmgren	Member
7.	Lilian Lup-Yin Ng	Member
8.	Gan Leong Hin	Member
9.	Soon Dee Hwee (<i>Appointed as a member w.e.f. 7 March 2016</i>)	Member

Roles and Responsibilities of the Nominating Committee

The Nominating Committee is responsible for establishing a formal and transparent procedure for the appointment of Directors, CEO, Control Function Heads, Senior Management Team (SMT) and Company Secretary. The Nominating Committee also assesses the effectiveness of individual Directors, the Board as a whole (inclusive of its committees), CEO, Control Function Heads, SMT and the Company Secretary on an on-going basis. The Nominating Committee meets at least once a year to fulfil its responsibilities.

(iv) Remuneration Committee

No.	Name	Designation
1.	Abdul Khalil bin Abdul Hamid (<i>Resigned as Chairman w.e.f. 1 January 2017</i>)	Chairman
2.	Ho Yik	Member
3.	Chan Wan Siew (<i>Resigned as member w.e.f. 24 January 2016</i>)	Member
4.	Richard Patrick George Duxbury	Member
5.	Kevin Lee Holmgren	Member
6.	Lilian Lup-Yin Ng (<i>Resigned as member w.e.f. 24 February 2017</i>)	Member
7.	Soon Dee Hwee (<i>Appointed as a member w.e.f. 7 March 2016 and Chairman w.e.f. 1 January 2017</i>)	Member

Company No. 107655-U

Statement on corporate governance and internal controls (continued)

2 Board Committees (continued)

(iv) Remuneration Committee (continued)

Roles and Responsibilities of the Remuneration Committee

The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing the remuneration policy for the Directors, CEO, Control Function Heads and Senior Management Team and to ensure that their compensation is competitive and consistent with the insurer's culture, objectives and strategy. The Remuneration Committee meets at least once a year to fulfil its responsibilities.

3 Directors' attendance at Board and Board Committee meetings during the financial year ended 31 December 2016

	Board	Audit Committee	Risk Management Committee	Nominating Committee	Remuneration Committee
Lilian Lup-Yin Ng	10 out of 10	N/A	4 out of 4	5 out of 5	4 out of 4
Ho Yik	10 out of 10	4 out of 4	4 out of 4	5 out of 5	4 out of 4
Abdul Khalil bin Abdul Hamid	10 out of 10	4 out of 4	4 out of 4	5 out of 5	4 out of 4
Dato' Dr Gan Khuan Poh @ Gan Miew Chee	10 out of 10	4 out of 4	4 out of 4	5 out of 5	N/A
Richard Patrick George Duxbury	10 out of 10	4 out of 4	4 out of 4	5 out of 5	4 out of 4
Kevin Lee Holmgren	10 out of 10	4 out of 4	4 out of 4	5 out of 5	4 out of 4
Soon Dee Hwee* (Appointed w.e.f. 7 March 2016)	9 out of 10	4 out of 4	4 out of 4	4 out of 5	4 out of 4
Chan Wan Siew** (Resigned w.e.f. 24 January 2016)	-	-	-	-	-
Gan Leong Hin	10 out of 10	N/A	N/A	5 out of 5	N/A

N/A – Not Applicable (not a member)

* Soon Dee Hwee was appointed as a member of the Audit, Risk Management, Nominating and Remuneration Committees w.e.f. 7 March 2016.

** No Board and Committee meetings were held before Chan Wan Siew's resignation on 24 January 2016.

Company No. 107655-U

Statement on corporate governance and internal controls (continued)

4 Corporate independence

The Company has complied with the BNM's Guidelines on Related-Party Transactions (BNM/RH/GL 018-6) in respect of all its related-party undertaking. Full disclosure had been made to the Board, and when the amount involved in a transaction was material, the Board's approval for the transaction had also been sought.

5 Internal control framework

The Board exercises overall responsibilities for the Company's internal controls and risk management. The Company has established Risk Framework which provides reasonable assurance on the effectiveness and efficiency of the operations that ensure compliance with the applicable laws and regulation, as well as to safeguard the assets of the Company and stakeholders' interests. Continuous assessment of the effectiveness and adequacy of internal controls, which includes and independent examination of controls by the internal audit function, ensures that corrective action where necessary, is taken in a timely manner.

- (a) In the Risk Framework, the Company applies the principle of three (3) lines of defence model: risk taking and management, risk control and oversight and independent assurance as illustrated below:

(i) First line of defence

The first line of defence comprising the business functions involved in the risk taking and management of the Company.

The business functions take and manage risk exposure in accordance with the risk appetite, mandate and limits set by the Company's Board of Directors or Board Risk Management Committee.

Company No. 107655-U

Statement on corporate governance and internal controls (continued)

5 Internal control framework (continued)

- (a) In the Risk Framework, the Company applies the principle of three (3) lines of defence model: risk taking and management, risk control and oversight and independent assurance as illustrated below: (continued)

(ii) Second line of defence

The second line of defence which is Risk Control and Oversight function reporting to the Chief Risk Officer, comprising:

- **Risk Management function**

The Risk Management function consists of Financial Risk, Operational Risk, Business Continuity and Information Risk sections. The function identifies, measure, monitor, control and report on risk exposures that encompass risks at firm-wide, portfolio and business-line level, as well as both on and off-balance sheet exposures. The function provides review and oversight on management actions and strategic direction from the perspective of prudent risk management. The function supports the Board Risk Management Committee and is responsible for the implementation and coordination of risk initiatives and requirements across the business.

- **Compliance function**

The Compliance function reports to the Chief Risk Officer. Its main function is to provide advice, guidance and supports to the business functions on regulatory matters. The Compliance function also manages the regulatory changes within the Company by working closely with the relevant business functions in ensuring proper implementation of the regulatory changes. Monitoring and review activities are carried out by the Compliance function to provide the assurance that the business is carried out within the ambit of the regulatory requirements. Additionally, the Financial Crimes function outlines the governing policies and manages matters relating to anti-money laundering, anti-bribery and corruption as well as conflict of interest of the Company.

(iii) Third line of defence

The third line of defence is the Internal Audit function, which provides independent assurance on the design, effectiveness and implementation of the overall system of internal control which covers risk management and compliance.

Company No. 107655-U

Statement on corporate governance and internal controls (continued)

5 Internal control framework (continued)

- (b) The key policies and procedures for each of the internal control/second line functions are as follows:
- (i) For the Risk Management function, the Risk Framework is reviewed biannually or from time to time, to reflect the latest changes in the Prudential Group, PCA or local regulatory requirements and approved by the Board.
 - (ii) For the Compliance function, the key policies and procedures include:
 - Compliance Manual sets out the general compliance standards and provision of principal laws and regulations governing the Company's operations. The Compliance Manual is reviewed annually and any subsequent significant changes are approved by the CEO.
 - Regulatory Engagement Protocol entails the communication and information exchange with any relevant regulatory bodies.
 - Anti-Money Laundering ("AML")/Counter-Terrorist Financing ("CFT") Policy sets out requirements, standards and guidance that support the Company's compliance with Prudential Group and Bank Negara Malaysia's guidelines. The AML/CFT Policy is reviewed annually and any changes are approved by the Board.
 - Anti-Bribery and Corruption Policy, including Gift and Hospitality (G&H) which sets out the minimum requirements that support the Company's compliance with Prudential Group Anti-Bribery and Corruption Policy and Prudential Group Gift and Hospitality (G&H) Policy. The Anti-Bribery and Corruption Policy is reviewed annually and any changes are approved by the Executive Risk Committee.
 - Conflict of Interest Policy is established to adopt measures to avoid conflict of interest, identify the existence of any conflict of interest and to disclose the existence of conflict of interest. The Conflict of Interest Policy is reviewed annually and any changes are approved by the Executive Risk Committee.

Company No. 107655-U

Statement on corporate governance and internal controls (continued)

6 Remuneration policy

The Remuneration Policy sets out guidelines which support the PAMB's objective of having an effective approach in place to reward employees in an appropriate way which:

- aligns incentives to business objectives to support the delivery of the Company's business plans, strategies and values;
- enables the recruitment and retention of high calibre employees and incentivises them to achieve success for the Company; and
- is consistent with the Company's risk appetite.

The key features of the remuneration system which is embedded in the policy include the following:

- * Governance and oversight processes;
- * Remuneration structures such as base salary, cash allowance, discretionary Annual Incentive Bonus (AIB) payments, Long Term Incentive Plan (LTIP) and benefits;
- * Performance management approach;
- * Identification of 'other material risk takers';
- * Identification and roles of control functions;
- * Anti-avoidance and anti-hedging.

The Company has eleven (11) Senior Management members comprising of Chief Executive Officer and Chief Officers in the Executive Committee.

The Company's remuneration system is subjected to the board's active oversight to ensure that the system operates as intended and is in line with the business and risk strategies, corporate values and long-term interests of the Company. The Company is guided by a set of principles promoting sound and effective risk management to ensure that the Company does not encourage risk-taking that exceeds the level of tolerated risk of the Company. The prudent risk-taking approach encourages individuals to act in the interests of the Company as a whole, taking into consideration various stakeholders such as customers, shareholders, businesses and employees' objectives. The assessment from the control functions and the board risk management committee ensures that risk exposures and risk outcomes are adequately considered. In order to achieve objective assessment and reporting, the appraisal and remuneration of the control functions are based on functional and individual components which are independent of the businesses that they support.

Company No. 107655-U

Statement on corporate governance and internal controls (continued)

6 Remuneration policy (continued)

The Company's achievement is measured by financial metrics which links to claim experience and other risk adjusted measures. Other measurements include the non-financial metrics which capture the achievement of qualitative performance such as people development, customer service, technology modernization and effectiveness and efficiency of supporting operations. These metrics are broadly consistent with the previous year.

The Company's discretionary AIB scheme is designed to link the reward of the employees against the Company's financial and non-financial metrics as well as individual's performance. The individual performance includes the pre-agreed bonus participation rate that reflects the criticality of the individual's contribution.

The Company has a discretionary LTIP which is a deferred remuneration component to align the interests of participants with the long-term performance of the Company. The plan is designed to incentivise key performers to grow the Company and to share in the success of this growth. LTIP awards are determined based on business and individual performance, potential for advancement, market practice and individual retention risk assessment.

Overall, the variable remuneration mix of AIB and LTIP are awarded based on the criticality and accountability level of the role as well as individual's performance.

In the event the Company's performance metrics are weak, the adjustments for fixed and variable remuneration will be performed accordingly. The Company defines weak performance as the deviation of achieved performance against a set of objectives with a pre-defined threshold and targets.

The Company is applying the transitional arrangements as per Part G of BNM Guidelines on Corporate Governance (BNM/RH/PD029-9) and currently is reviewing the design and structure of the remuneration system to be fully aligned and compliant with the requirement of Part D of the guidelines. In particular, the requirements with regards to alignment of the remuneration for individuals with prudent risk taking, multi-year framework with payout schedules which reflect the time horizon of risks and promoting behaviours that are aligned to the intended effects of incentive structure.

The quantitative remuneration disclosure for the CEO and Directors for the financial year 2016 is shown in Note 23 (b) of the financial statements.

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Statement on corporate governance and internal controls (continued)

6 Remuneration policy (continued)

The quantitative remuneration disclosure for the Senior Management Team for the financial year 2016 is shown in the table below:

Total value of remuneration awards for the financial year 2016 (RM)			
	Unrestricted	Deferred	Grand Total
Fixed Remuneration			
Cash based	8,887,871	-	8,887,871
Shares and share-linked instruments	-	-	-
Other	27,236	-	27,236
Variable Remuneration			
Cash based	4,415,576	-	4,415,576
Shares and share-linked instruments	-	5,962,811*	5,962,811*
Other	1,775,409	-	1,775,409
Grand Total	15,106,092	5,962,811	21,068,903

* Based on value of shares granted in financial year 2016. The total amount of outstanding deferred remuneration is RM9,326,148. The total amount paid out during the financial year is RM2,900,314.

A total of 11 Senior Management members are having variable remuneration. None of the members receive any guaranteed bonus and severance payment. Sign-on award was awarded to a member with the total amount of RM99,000.

Directors' benefits

The Company has obtained approval from the Companies Commission of Malaysia for relief from the requirements of Section 255(1) of the Companies Act, 2016 in Malaysia. Under the relief, the Company is exempted from disclosure of directors' interest in the shares of its related corporations.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object 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.

Company No. 107655-U

Directors' benefits (continued)

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than benefits included in the aggregate amount of remuneration received or due and receivable by Directors or the fixed salary of a full-time employee of the Company as shown in Note 23 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Other than those exempted from disclosure under Section 255(1) of the Companies Act, 2016, none of the Directors in office at the end of financial year had any interest in the shares or debentures of the Company and of its related corporations during the financial year.

Issue of shares

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

Options granted over unissued shares

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

Indemnity and insurance costs

The following disclosure on particulars of indemnity given to, or insurance effected for any officer of the Company is made pursuant to Section 289 (7) of the Companies Act 2016:

	Amount paid RM	Sum assured RM
Directors & Officers and Comprehensive Crime and Professional Indemnity Insurance 2016	<u>662,446</u>	<u>160,509,000</u>

Other statutory information

- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that:
- (i) all known bad debts have been written off and adequate allowance made for doubtful debts; and
 - (ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

Company No. 107655-U

Other statutory information (continued)

- (b) At the date of this report, the Directors are not aware of any circumstances:
- (i) that would render the amount written off for bad debts or the amount of the allowance for doubtful debts or the provision for insurance liabilities in the Company inadequate to any substantial extent; or
 - (ii) that would render the values attributed to the current assets in the financial statements of the Company misleading; or
 - (iii) which have arisen which render adherence to existing method of valuation of assets or liabilities of the Company misleading or inappropriate; or
 - (iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Company misleading.
- (c) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.
- (d) 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 financial performance of the Company for the financial year in which this report is made.

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

Company No. 107655-U

Auditors

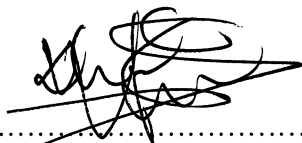
The auditors, Messrs KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in note 23 to the financial statements.

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



.....
Soon Dee Hwee
Director



.....
Abdul Khalil bin Abdul Hamid
Director

Kuala Lumpur,

Date: 23 March 2017

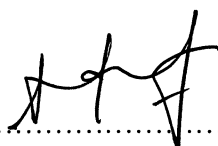
Prudential Assurance Malaysia Berhad

(Company No. 107655-U)
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 251(2) of the Companies Act, 2016

We, Soon Dee Hwee and Abdul Khalil bin Abdul Hamid being two of the Directors of Prudential Assurance Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 30 to 101 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and cash flows for the year then ended.

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



.....
Soon Dee Hwee
Director



.....
Abdul Khalil bin Abdul Hamid
Director

Kuala Lumpur,

Date: 23 March 2017

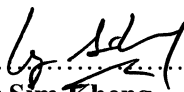
Prudential Assurance Malaysia Berhad

(Company No. 107655-U)
(Incorporated in Malaysia)

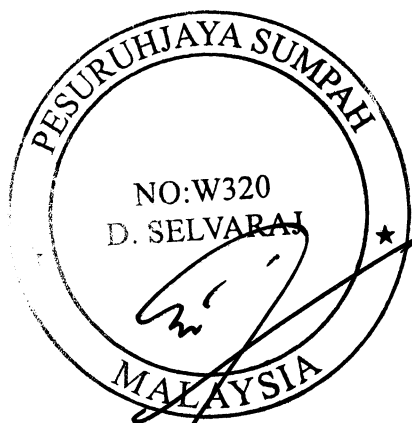
Statutory declaration pursuant to Section 251(1)(b) of the Companies Act, 2016

I, Ng Sim Kheng being the officer primarily responsible for the financial management of Prudential Assurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 30 to 101 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Ng Sim Kheng, NRIC: 641017-07-5480 at Kuala Lumpur in the Federal Territory on 23 March 2017.


.....
Ng Sim Kheng

Before me:



Commissioner for Oaths
Kuala Lumpur

NO. 277B, JALAN PERKASA 1
TAMAN MALURI, CHERAS
58100 KUALA LUMPUR

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PRUDENTIAL ASSURANCE MALAYSIA BERHAD

(Company No. 107655-U)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Prudential Assurance Malaysia Berhad, which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 30 to 101.

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

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 auditors' 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.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the 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 Directors' Report and we do not express any form of assurance conclusion thereon.

Company No. 107655-U

Information Other than the Financial Statements and Auditors' Report Thereon (continued)

In connection with our audit of the financial statements of the Company, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report 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 the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Company No. 107655-U

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 internal control of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

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

Report on Other Legal and Regulatory Requirements

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

Other Matter

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



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

23 March 2017
Petaling Jaya, Selangor



Loh Kam Hian
Approval Number: 02941/09/2018 J
Chartered Accountant

Prudential Assurance Malaysia Berhad

(Company No. 107655-U)

(Incorporated in Malaysia)

Statement of financial position as at 31 December 2016

	Note	2016 RM'000	2015 RM'000
Assets			
Property and equipment	3	200,167	185,254
Intangible assets	4	65,900	-
Investments	5	26,215,995	24,241,649
Reinsurance assets	6	17,960	13,136
Insurance receivables	7	39,943	40,765
Other receivables	8	351,809	350,113
Tax recoverable		17,614	82,163
Cash and bank balances		33,699	22,770
Total assets		<u>26,943,087</u>	<u>24,935,850</u>
Equity, policyholders' funds and liabilities			
Share capital	9	100,000	100,000
Retained earnings	10	<u>1,661,881</u>	<u>1,759,335</u>
Total equity		<u>1,761,881</u>	<u>1,859,335</u>
Insurance contract liabilities	11	23,744,696	21,695,662
Deferred taxation	12	437,177	490,278
Provisions	13	257,221	206,565
Insurance payables	14	419,869	362,530
Tax payable		9,003	16,758
Other payables	15	<u>313,240</u>	<u>304,722</u>
Total liabilities		<u>25,181,206</u>	<u>23,076,515</u>
Total equity, policyholders' funds and liabilities		<u>26,943,087</u>	<u>24,935,850</u>

The statement of financial position of the Company presented by funds is disclosed in Note 33.

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

Prudential Assurance Malaysia Berhad

(Company No. 107655-U)

(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Operating revenue	16	<u>7,249,274</u>	<u>6,733,723</u>
Gross earned premiums	17(a)	6,259,697	5,827,095
Premiums ceded to reinsurers	17(b)	<u>(92,092)</u>	<u>(89,603)</u>
Net earned premiums		<u>6,167,605</u>	<u>5,737,492</u>
Investment income	18	989,577	906,628
Realised gains and losses	19	11,467	22,291
Fair value gains and losses	20	(185,491)	(40,144)
Fee and commission income	21	281,412	264,142
Other operating income		<u>81,802</u>	<u>73,303</u>
Other income		<u>1,178,767</u>	<u>1,226,220</u>
Gross benefits and claims paid	22(a)	(2,795,070)	(2,719,219)
Claims ceded to reinsurers	22(b)	26,662	23,447
Gross change in contract liabilities	22(c)	(2,088,036)	(1,735,750)
Change in contract liabilities ceded to reinsurers	22(d)	<u>4,785</u>	<u>(3,274)</u>
Net benefits and claims		<u>(4,851,659)</u>	<u>(4,434,796)</u>
Fee and commission expense		(1,157,268)	(1,093,918)
Depreciation of property and equipment	3	(13,612)	(13,267)
Amortisation of intangible assets	4	(4,767)	-
Management expenses	23	(618,788)	(567,763)
Other operating expenses		<u>(95,686)</u>	<u>(81,302)</u>
Other expenses		<u>(1,890,121)</u>	<u>(1,756,250)</u>
Profit before taxation		604,592	772,666
Taxation	24	<u>(127,046)</u>	<u>(184,391)</u>
Net profit/Total comprehensive income for the year		<u>477,546</u>	<u>588,275</u>
Earnings per share (sen)			
Basic	25	<u>477.55</u>	<u>588.28</u>

The statement of profit or loss and other comprehensive income of the Company presented by funds is disclosed in Note 33.

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

Prudential Assurance Malaysia Berhad

(Company No. 107655-U)

(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2016

	Note	Share capital RM'000	Retained earnings			Total equity RM'000
			Non- Distributable* RM'000	Distributable RM'000	Total RM'000	
At 1 January 2015		100,000	779,880	524,180	1,304,060	1,404,060
Net profit/Total comprehensive income for the year		-	227,455	360,820	588,275	588,275
Dividends paid during the year	26	-	-	(133,000)	(133,000)	(133,000)
At 31 December 2015/ 1 January 2016		100,000	1,007,335	752,000	1,759,335	1,859,335
Net profit/Total comprehensive income for the year		-	(125,435)	602,981	477,546	477,546
Dividends paid during the year	26	-	-	(575,000)	(575,000)	(575,000)
At 31 December 2016		100,000	881,900	779,981	1,661,881	1,761,881
		Note 9		Note 10		

* Non-distributable retained earnings comprises of the surplus from non-participating life insurance business, net of deferred tax. This amount is only distributable upon the annual recommendation by the Appointed Actuary to transfer a requisite amount of the Life fund surplus to the shareholder's fund.

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

Prudential Assurance Malaysia Berhad

(Company No. 107655-U)

(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2016

	2016 RM'000	2015 RM'000
Cash flows from operating activities		
Profit before taxation	604,592	772,666
Adjustments for:		
Loss/(Gain) on disposal of property and equipment	2	(168)
Property and equipment written off	648	227
Intangible assets written off	1	-
Fair value loss on investments	185,491	40,144
Depreciation of property and equipment	13,612	13,267
Amortisation of intangible assets	4,767	-
Operating gain before changes in working capital	809,113	826,136
Changes in operating assets and liabilities:		
Investments	(2,159,837)	(2,389,468)
Reinsurance assets	(4,824)	3,453
Insurance receivables	822	4,249
Other receivables	(1,696)	(107,341)
Insurance contract liabilities	2,049,034	1,888,577
Provisions	50,656	29,368
Insurance payables	57,339	45,058
Other payables	8,518	60,143
Cash generated from operations	809,125	360,175
Tax paid	(123,353)	(171,891)
Net cash from operating activities	685,772	188,284
Cash flows from investing activities		
Acquisition of property and equipment	(99,905)	(66,984)
Proceeds from disposal of property and equipment	62	208
Net cash used in investing activities	(99,843)	(66,776)
Cash flows from financing activity		
Dividend paid to owners of the Company	(575,000)	(133,000)
Net cash used in financing activity	(575,000)	(133,000)

Company No. 107655-U

**Statement of cash flows for the year ended
31 December 2016 (continued)**

	2016 RM'000	2015 RM'000
Net increase/(decrease) in cash and bank balances	10,929	(11,492)
Cash and bank balances at beginning of year	<u>22,770</u>	<u>34,262</u>
Cash and bank balances at end of year	<u><u>33,699</u></u>	<u><u>22,770</u></u>

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

Prudential Assurance Malaysia Berhad

(Company No. 107655-U)

(Incorporated in Malaysia)

Notes to the financial statements

Corporate information

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

Registered office

Level 3, Menara Prudential
No. 10, Jalan Sultan Ismail
50250 Kuala Lumpur

Principal place of business

Level 15, Menara Prudential
No. 10, Jalan Sultan Ismail
50250 Kuala Lumpur

The Company is principally involved in the underwriting of life insurance business, which includes linked business and, related thereto, the investment of funds and general insurance business. There has been no significant change in the nature of these principal activities during the year.

The holding company is Sri Han Suria Sdn. Bhd., a company incorporated in Malaysia. The ultimate holding company is Prudential plc., a company incorporated in the United Kingdom which is listed on the London, New York, Hong Kong and Singapore Stock Exchanges.

The financial statements were approved by the Board of Directors on 23 March 2017.

1. Basis of preparation

1.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act, 1965 in Malaysia.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

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

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017, except for amendments to MFRS 12 which is not applicable to the Company.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 1 and MFRS 128 which are not applicable to the Company and MFRS 9 which the Company is eligible for temporary exemption that permits, but does not require the insurer to apply MFRS 139 *Financial Instruments: Recognition and Measurement* rather than MFRS 9 for annual periods beginning before 1 January 2021.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

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

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

(iii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 16.

1.2 Basis of measurement

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

1.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional currency. All values are rounded to the nearest thousand (“RM’000”) except where otherwise indicated.

1.4 Use of estimates and judgements

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

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

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

- Note 2(e)(ii) - Fair value measurement of financial instruments
- Note 31 - Fair value information
- Note 2(u)(i) - Valuation of life insurance contract liabilities
- Note 2(u)(ii) - Valuation of general insurance contract liabilities

2. Significant accounting policies

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

(a) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Property and equipment

(i) Recognition and measurement

Freehold land and capital work-in-progress are stated at cost less any accumulated impairment losses. Other items of property and equipment are stated at cost less any accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within “realised gains and losses” in profit or loss.

2. Significant accounting policies (continued)

(b) Property and equipment (continued)

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Capital work-in-progress are not depreciated until the assets are ready for their intended use.

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

Leasehold land	50 - 800 years
Buildings	50 years
Motor vehicles	5 years
Computer equipment	3 years
Office furniture, fittings and equipment	10 years

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

2. Significant accounting policies (continued)

(c) Intangible asset

(i) Recognition and measurement

Intangible assets comprise software development costs, computer software and licenses.

Intangible assets that are acquired by the Company are measured on initial recognition at cost. Cost includes expenditures that are directly attributable to acquisition of the intangible assets such as licenses, development, major enhancement, technical knowledge, design and implementation of new processes or systems etc. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortisation except for software-in-development which is not subject to amortisation until the development is completed and the asset is available for use.

(ii) Amortisation

All intangible assets are amortised from the date they are available for use over the useful economic life. The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each reporting period. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate and treated as changes in the accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

(iii) Computer software and licences

The useful lives of computer software and licenses are considered to be finite because computer software and licenses are susceptible to technology or commercial obsolescence and subject to certain expected capacity and usage beyond which the performance may not be at the optimum level.

The acquired computer software and licenses are amortised using the straight-line method over their estimated useful lives of 10 years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at the end of each reporting date.

2. Significant accounting policies (continued)

(d) Leased assets

(i) Finance lease

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

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

Leasehold land which in substance is a finance lease is classified as property and equipment.

(ii) Operating lease

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

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

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

2. Significant accounting policies (continued)

(e) Financial instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:-

Financial assets

(a) Fair value through profit or loss

Fair value through profit or loss ("FVTPL") category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition. Investments typically bought with the intention to sell in the near future are classified as held-for-trading ("HFT"). For investments designated at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment such as asset-liability mismatch, that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

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

Financial assets (continued)

(a) Fair value through profit or loss (continued)

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value with the gain or loss recognised in profit or loss.

(b) Loans and receivables (“LAR”), excluding insurance receivables

LAR category comprises debt instruments that are not quoted in an active market.

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

(c) Insurance receivables

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

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

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(e)(iv), have been met.

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

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

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

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

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

Derivatives that are linked to and must otherwise be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

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

(iii) Regular way purchase or sale of financial assets

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

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

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

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the financial asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(f) Impairment

(i) Financial assets, excluding insurance receivables

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

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

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

2. Significant accounting policies (continued)

(f) Impairment (continued)

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

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

(ii) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

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

(iii) Other assets

The carrying amounts of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(iii) Other assets (continued)

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

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

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

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

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

(g) Equity instruments

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

(i) Ordinary shares

Ordinary shares are classified as equity.

2. Significant accounting policies (continued)

(h) Product classification

The Company issues life insurance contracts that transfer insurance risk. These are classified as insurance contracts and investment contracts with discretionary participating features.

Insurance contracts are those contracts under which the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Disclosures on the various life insurance contracts are classified into the principal components as follows:

- Life insurance participating contracts
- Life insurance non-participating contracts
- Investment-linked contracts

The Company does not unbundle any insurance contracts as its accounting policy recognises all insurance premiums, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the profit or loss.

(i) Life insurance participating contracts

Insurance contracts that contain discretionary participating features (“DPF”) are classified as participating policies. The DPF entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

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

2. Significant accounting policies (continued)

(h) Product classification (continued)

(i) Life insurance participating contracts (continued)

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the quantum and timing of their payment to policyholders.

The DPF is classified as a liability in the Company's statement of financial position and as part of claims and benefits incurred in the profit or loss, as it does not recognise the guaranteed element separately.

(ii) Life insurance non-participating contracts

These are contracts that are predominantly protection based. For protection based contracts, the Company usually guarantees a fixed level of benefit that is payable upon a claim event (eg. death, disability, critical illness). In return, the policyholders will pay contractual premiums that may be guaranteed over the term of the contract.

(iii) Investment-linked contracts

These are contracts that transfer only insurance risk from policyholders to the Company. Policyholders of such contracts use their premium to purchase units of investment funds set up by the Company. The amount of benefits is directly linked to the performance of these investment funds. In addition, units are deducted from the investment-linked account balances for mortality and morbidity charges and policy administration fees. The investment returns derived from the variety of investment funds as elected by the policyholder accrue directly to the policyholder.

(i) Life insurance underwriting results

Surplus transfer

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

Premium income

Premium is recognised as soon as the amount of the premium can be reliably measured.

2. Significant accounting policies (continued)

(i) Life insurance underwriting results (continued)

Premium income (continued)

i) *Investment-linked business*

First premium income is recognised on the assumption of risk and subsequent premiums are recognised on a cash basis. Subsequent risk is assumed based on sufficiency of units of the policyholder.

ii) *Non-linked business*

First premium is recognised from inception date and subsequent premium is recognised when it is due. At the end of the financial period, all due premiums are accounted for to the extent that they can be reliably measured and are recoverable.

Reinsurance premium

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

Commission and agency expenses

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

Benefits, claims and expenses

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

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

- (a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates.
- (b) death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

2. Significant accounting policies (continued)

(i) Life insurance underwriting results (continued)

Benefits, claims and expenses (continued)

- (c) for accident and health business, provision is made for the cost of claims, together with related expenses, and Incurred but Not Reported (“IBNR”) is estimated at reporting date, using a mathematical method of estimation by the Appointed Actuary based on past claims experience. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

(j) Life insurance liabilities

The insurance liabilities for contracts held within the participating insurance fund are taken as the higher of the following at the fund level:

- (i) sum of the present value of future 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 risk-free discount rate.
- (ii) sum of the present value of future guaranteed and 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 a suitable rate, taking into account historical yields and the future investment outlook of the fund.

The insurance liabilities for traditional non-participating contracts are determined as the sum of the present value of future 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 risk-free discount rate.

For investment-linked and universal life type policies, insurance liabilities were set up based on a cash flow projection method set to ensure that any future negative cash flows that would otherwise arise are eliminated. The liabilities include an appropriate amount to cover the guaranteed minimum benefits offered under certain contracts, calculated using a stochastic method.

2. Significant accounting policies (continued)

(j) Life insurance liabilities (continued)

The insurance liabilities are 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 insurance liabilities of participating life policies, and non-unit liabilities of investment-linked policies.

The valuation of insurance contract liabilities is determined according to the RBC Framework which meets the requirement of liability adequacy test under MFRS 4.

The unallocated surplus on participating insurance fund remains to be presented as part of life insurance liabilities, in accordance with the requirements of the BNM's Guidelines on Financial Reporting (BNM/RH/STD 032-5).

Non-participating life insurance business unallocated surplus represents the residual interest in the assets of the non-participating life funds after consideration of all liabilities. It comprises of surplus arising within the life funds but not yet transferred to the shareholder's fund and the amount is only distributed upon recommendation by the Appointed Actuary at financial year end.

(k) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account inter alia reinsurances, movement in premium liabilities, commissions and claims incurred.

Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period.

Premium liabilities

Premium liabilities is the higher of the aggregate of the Unearned Premium Reserves ("UPR") for all lines of business and the best estimate value of the Unexpired Risk Reserves ("URR") at the required risk margin for adverse deviation.

Unearned Premium Reserves

The UPR represents the portion of net premium income of insurance policies written that relates to the unexpired periods of the policies at the end of the financial year.

The 1/24th method is used for all general policies business of the Company.

2. Significant accounting policies (continued)

(k) General insurance underwriting results (continued)

Unexpired Risk Reserves

The URR is the 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 expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

Claims liabilities

Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, 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 reporting date. The liability is calculated at the reporting date by the Appointed Actuary using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that included a regulatory risk margin for adverse deviation. 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.

Estimating the outstanding claims provision involves projection of the Company's future claims experience based on current claims experience. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

Acquisition cost

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Acquisition costs or ceding income which are not recoverable or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

2. Significant accounting policies (continued)

(l) Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision.

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

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

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

(m) Employee benefits

Short-term employee benefits

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

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

The Company's contributions to the Employee's Provident Fund ("EPF") are charged to the profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

Gratuities payable to entitled employees are computed based on a certain percentage of the monthly basic salaries and are remitted to the EPF when due.

2. Significant accounting policies (continued)

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits held with financial institutions which have an insignificant risk of changes in fair value with original maturities of three months or less and are used by the Company in the management of their short-term commitments. It excludes deposits which are held for investment purpose.

(o) Non-current asset held for sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property and equipment once classified as held for sale are not depreciated.

(p) Provision

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Long-term life field agents benefits

The Company is also obligated under the agreement with the life field agents to pay retirement benefits to eligible agents upon retirement. Such retirement benefits have been provided for in the financial statements to the extent of the Company's contractual liability.

2. Significant accounting policies (continued)

(q) Other revenue recognition

Interest on loans is recognised on an accrual basis except where a loan is considered non-performing, i.e. where repayment is in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

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

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

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

Gains or losses arising on disposal of investments are credited or charged to the profit or loss.

(r) Income tax

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

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax base. Deferred tax is not recognised for temporary differences arises from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liability is for all temporary differences.

2. Significant accounting policies (continued)

(r) Income tax (continued)

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

(s) Earnings per share

The Company presents basic earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(t) Contingent liabilities

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

(u) Significant accounting judgements, estimates and assumptions

(i) Valuation of life insurance contract liabilities (including investment contract liabilities with DPF)

The liability for life insurance contracts and investment contracts with DPF 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 base mortality and morbidity rates 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.

2. Significant accounting policies (continued)

(u) Significant accounting judgements, estimates and assumptions (continued)

(i) Valuation of life insurance contract liabilities (including investment contract liabilities with DPF) (continued)

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. 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.

(ii) Valuation of general insurance contract liabilities

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the reporting date.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder method.

The main assumption underlying these techniques is that a company's 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, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type.

2. Significant accounting policies (continued)

(u) Significant accounting judgements, estimates and assumptions (continued)

(ii) Valuation of general insurance contract liabilities (continued)

Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development.

In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

(v) Fair value measurements

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

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible.

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

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3. Property and equipment

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Computer equipment RM'000	Office furniture, fittings and equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Cost								
At 1 January 2015	8,728	4,510	59,247	3,478	57,668	118,994	26,498	279,123
Additions	-	-	-	338	138	8,957	57,551	66,984
Disposals	-	-	-	(630)	-	-	-	(630)
Written off	-	-	-	-	(1,795)	(1,273)	-	(3,068)
Transfer from capital work-in-progress	-	-	-	-	14,135	2,509	(16,644)	-
At 31 December 2015/1 January 2016	8,728	4,510	59,247	3,186	70,146	129,187	67,405	342,409
Additions	-	-	-	957	14,952	7,840	76,156	99,905
Disposals	-	-	-	-	(11)	(1,366)	-	(1,377)
Written off	-	-	-	(338)	(3,951)	(763)	-	(5,052)
Transfer from capital work-in-progress #	-	-	-	-	19,954	2,164	(79,657)	(57,539)
Reclassification to intangible assets #	-	-	-	-	(27,024)	-	-	(27,024)
At 31 December 2016	8,728	4,510	59,247	3,805	74,066	137,062	63,904	351,322

In relation to certain capital work-in-progress and computer equipment that were reclassified to intangible assets. See Note 4.

3. Property and equipment (continued)

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Computer equipment RM'000	Office furniture, fittings and equipment RM'000	Capital work-in-progress RM'000	Total RM'000
Accumulated depreciation								
At 1 January 2015	-	1,999	18,337	1,903	52,940	72,140	-	147,319
Charge for the year	-	111	1,185	675	2,999	8,297	-	13,267
Disposals	-	-	-	(590)	-	-	-	(590)
Written off	-	-	-	-	(1,789)	(1,052)	-	(2,841)
At 31 December 2015/1 January 2016	-	2,110	19,522	1,988	54,150	79,385	-	157,155
Charge for the year	-	111	1,185	536	2,713	9,067	-	13,612
Disposals	-	-	-	-	(10)	(1,303)	-	(1,313)
Written off	-	-	-	(293)	(3,552)	(559)	-	(4,404)
Reclassification to intangible assets #	-	-	-	-	(13,895)	-	-	(13,895)
At 31 December 2016	-	2,221	20,707	2,231	39,406	86,590	-	151,155
Net carrying amounts								
At 1 January 2015	8,728	2,511	40,910	1,575	4,728	46,854	26,498	131,804
At 31 December 2015/1 January 2016	8,728	2,400	39,725	1,198	15,996	49,802	67,405	185,254
At 31 December 2016	8,728	2,289	38,540	1,574	34,660	50,472	63,904	200,167

In relation to certain computer equipment that was reclassified to intangible assets. See Note 4.

3. Property and equipment (continued)

Included in property and equipment are the costs of the following fully depreciated assets which are still in use:

	2016	2015
	RM'000	RM'000
At cost		
Motor vehicles	977	452
Computer equipment	12,387	45,807
Office furniture, fittings and equipment	44,576	40,129
	<u>57,940</u>	<u>86,388</u>

The strata titles of land and buildings with a cost of RM17,148,439 (2015: RM17,148,439) are in the process of being transferred to the Company.

4. Intangible assets

	Software and licences RM'000
Cost	
At 1 January 2015/31 December 2015/1 January 2016	-
Reclassification from computer equipment	27,024
Written off	(235)
Transfer from capital work-in-progress	57,539
At 31 December 2016	<u>84,328</u>
Amortisation	
At 1 January 2015/31 December 2015/1 January 2016	-
Reclassification from computer equipment	13,895
Amortisation for the year	4,767
Written off	(234)
At 31 December 2016	<u>18,428</u>
Carrying amounts	
At 1 January 2015/31 December 2015/1 January 2016	<u>-</u>
At 31 December 2016	<u>65,900</u>

5. Investments

	2016 RM'000	2015 RM'000
Malaysian government securities	1,067,048	741,830
Debt securities	10,345,213	9,249,905
Equity securities	10,359,183	9,615,422
Unit and property trust funds	524,159	426,195
Foreign managed funds	1,213,189	1,063,107
Investment in structured products	9,171	9,731
Loans	611,692	577,735
Deposits with financial institutions	<u>2,086,340</u>	<u>2,557,724</u>
	<u>26,215,995</u>	<u>24,241,649</u>

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

	2016 RM'000	2015 RM'000
Loans and receivables ("LAR")	2,698,032	3,135,459
Held-for-trading ("HFT")	<u>23,517,963</u>	<u>21,106,190</u>
	<u>26,215,995</u>	<u>24,241,649</u>

The following investments mature after 12 months:

	2016 RM'000	2015 RM'000
LAR	2,846	2,917
HFT	<u>10,949,731</u>	<u>9,684,822</u>
	<u>10,952,577</u>	<u>9,687,739</u>

(a) LAR

	2016 RM'000	2015 RM'000
Amortised cost		
Fixed and call deposits with financial institutions	2,086,340	2,557,724
Policy loans	578,573	549,882
Mortgage loans	547	898
Unsecured loans	<u>32,572</u>	<u>26,955</u>
	<u>2,698,032</u>	<u>3,135,459</u>

5. Investments (continued)

(b) HFT

	2016	2015
	RM'000	RM'000
Fair value		
Malaysian government securities	1,067,048	741,830
Debt securities	10,345,213	9,249,905
Equity securities	10,359,183	9,615,422
Unit and property trust funds	524,159	426,195
Foreign managed funds	1,213,189	1,063,107
Investment in structured products	9,171	9,731
	<u>23,517,963</u>	<u>21,106,190</u>

(c) Carrying values of financial instruments

	LAR	HFT	Total
	RM'000	RM'000	RM'000
At 1 January 2015	2,570,885	19,321,440	21,892,325
Purchases	53,409,280	3,578,072	56,987,352
Maturities	(52,868,951)	(602,371)	(53,471,322)
Disposals	-	(1,150,324)	(1,150,324)
Fair value losses recorded in:			
Profit or loss	-	(40,144)	(40,144)
New loans	203,378	-	203,378
Redemption or repayment	(185,740)	-	(185,740)
Interest receivable	6,607	-	6,607
Movement in foreign exchange rate	-	2,677	2,677
Realised losses	-	(3,160)	(3,160)
At 31 December 2015/ 1 January 2016	3,135,459	21,106,190	24,241,649
Purchases	77,329,077	4,016,988	81,346,065
Maturities	(77,800,461)	(256,027)	(78,056,488)
Disposals	-	(1,170,640)	(1,170,640)
Fair value losses recorded in:			
Profit or loss	-	(185,491)	(185,491)
New loans	205,502	-	205,502
Redemption or repayment	(181,810)	-	(181,810)
Interest receivable	10,265	-	10,265
Movement in foreign exchange rate	-	6,943	6,943
At 31 December 2016	<u>2,698,032</u>	<u>23,517,963</u>	<u>26,215,995</u>

6. Reinsurance assets

	Note	2016 RM'000	2015 RM'000
Reinsurance of insurance contracts - current	11	<u>17,960</u>	<u>13,136</u>

7. Insurance receivables

	2016 RM'000	2015 RM'000
Due premiums including agents/brokers and co-insurers balances	29,545	26,243
Due from reinsurers and cedants	<u>11,226</u>	<u>15,350</u>
	40,771	41,593
Allowance for impairment	<u>(828)</u>	<u>(828)</u>
	<u>39,943</u>	<u>40,765</u>

(a) Offsetting of financial assets and financial liabilities

The following table provides information of financial assets and liabilities that have been set off for presentation purpose:

	Gross amount RM'000	Balances that are set off RM'000	Net carrying amount in the statement of financial position RM'000
2016			
Due from reinsurers and cedants	94,272	(83,046)	11,226
Due to reinsurers and cedants	<u>(83,046)</u>	<u>83,046</u>	-
	<u>11,226</u>	-	<u>11,226</u>
2015			
Due from reinsurers and cedants	90,869	(75,519)	15,350
Due to reinsurers and cedants	<u>(75,519)</u>	<u>75,519</u>	-
	<u>15,350</u>	-	<u>15,350</u>

Certain amounts due from reinsurers and cedants and amounts due to reinsurers and cedants were set off for presentation purposes because there are enforceable right to set off or to realise the asset and settle the liability simultaneously.

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8. Other receivables

	2016 RM'000	2015 RM'000
Other receivables, deposits and prepayments	139,980	159,233
Income due and accrued	182,609	157,956
Amounts due from related companies	<u>29,220</u>	<u>32,924</u>
	<u>351,809</u>	<u>350,113</u>

The amounts due from related companies are unsecured, interest free and receivable on demand.

9. Share capital

	Amount 2016 RM'000	Number of shares 2016 '000	Amount 2015 RM'000	Number of shares 2015 '000
Authorised:				
Ordinary shares of RM1 each				
At beginning and end of year	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:				
Ordinary shares of RM1 each				
At beginning and end of year	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

10. Retained earnings

The Company may distribute single tier exempt dividend to its shareholder out of its distributable retained earnings. Pursuant to Section 51(1) of the Financial Services Act, 2013 ("FSA"), the Company is required to obtain Bank Negara Malaysia'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 ("CAR") position is less than the Company's Individual Target Capital Level or if the payment of dividend would impair its CAR position to below its individual target.

11. Insurance contract liabilities

Note	2016			2015		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Life insurance	23,682,405	(13,951)	23,668,454	21,617,020	(10,439)	21,606,581
General insurance	62,291	(4,009)	58,282	78,642	(2,697)	75,945
	<u>23,744,696</u>	<u>(17,960)</u>	<u>23,726,736</u>	<u>21,695,662</u>	<u>(13,136)</u>	<u>21,682,526</u>

Note 6

Note 6

(a) Life insurance

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

	2016			2015		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Actuarial liabilities	10,063,398	(13,951)	10,049,447	8,639,813	(10,439)	8,629,374
Net asset value attributable to unit holders	13,140,628	-	13,140,628	12,464,157	-	12,464,157
Provision for outstanding claims	478,379	-	478,379	513,050	-	513,050
	<u>23,682,405</u>	<u>(13,951)</u>	<u>23,668,454</u>	<u>21,617,020</u>	<u>(10,439)</u>	<u>21,606,581</u>

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11. Insurance contract liabilities (continued)**(a) Life insurance (continued)**

	Non Par RM'000	Par RM'000	Unit Reserves RM'000	Non-Unit Reserves RM'000	Claim Liabilities RM'000	Total RM'000
At 1 January 2015	460,513	6,943,324	11,660,167	293,184	355,748	19,712,936
Valuation premiums	289,172	-	-	-	-	289,172
Premium received, net of reinsurance	-	1,161,642	1,727,157	(34,204)	-	2,854,595
Liabilities released for payments on death, surrender and other terminations	(209,296)	(499,040)	(1,064,903)	(15,122)	(1,224,451)	(3,012,812)
Claims incurred during the year	-	-	-	88,108	1,381,753	1,469,861
Accretion of interest	4,754	-	-	9,846	-	14,600
Other movements	-	-	-	16,061	-	16,061
New business	85,846	-	-	5,694	-	91,540
Change in valuation basis	(73,281)	-	-	(68,523)	-	(141,804)
Investment income	-	351,948	-	-	-	351,948
Expenses: Operating	-	-	-	-	-	-
- Commission and agency expenses	-	(136,462)	-	-	-	(136,462)
- Management expenses	-	(122,840)	-	-	-	(122,840)
Other income	-	90,947	-	-	-	90,947
Movement in tax	-	(33,221)	-	-	-	(33,221)
Policyholder's liability	47,705	-	-	-	-	47,705
Net asset value attributable to unit holders (Note 33)	-	-	141,736	-	-	141,736
Transfer to shareholder's fund	-	(27,381)	-	-	-	(27,381)
At 31 December 2015	605,413	7,728,917	12,464,157	295,044	513,050	21,606,581

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11. Insurance contract liabilities (continued)**(a) Life insurance (continued)**

	Non Par RM'000	Par RM'000	Unit Reserves RM'000	Non-Unit Reserves RM'000	Claim Liabilities RM'000	Total RM'000
At 1 January 2016	605,413	7,728,917	12,464,157	295,044	513,050	21,606,581
Valuation premiums	309,059	-	-	-	-	309,059
Premium received, net of reinsurance	-	1,319,777	1,659,851	(40,148)	-	2,939,480
Liabilities released for payments on death, surrender and other terminations	(231,684)	(583,117)	(990,761)	(24,683)	(2,088,105)	(3,918,350)
Claims incurred during the year	-	-	-	95,882	2,053,434	2,149,316
Accretion of interest	13,605	-	-	15,239	-	28,844
Other movements	(2,813)	-	-	15,220	-	12,407
New business	306,922	-	-	6,772	-	313,694
Change in valuation basis	68,239	-	-	3,318	-	71,557
Investment income	-	392,188	-	-	-	392,188
Expenses: Operating	-	-	-	-	-	-
- Commission and agency expenses	-	(161,440)	-	-	-	(161,440)
- Management expenses	-	(148,845)	-	-	-	(148,845)
Other income	-	84,825	-	-	-	84,825
Movement in tax	-	(34,645)	-	-	-	(34,645)
Policyholder's liability	45,087	-	-	-	-	45,087
Net asset value attributable to unit holders (Note 33)	-	-	7,381	-	-	7,381
Transfer to shareholder's fund	-	(28,685)	-	-	-	(28,685)
At 31 December 2016	1,113,828	8,568,975	13,140,628	366,644	478,379	23,668,454

11. Insurance contract liabilities (continued)

	Note	2016		2015		
		Gross RM'000	Reinsurance RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
(b) General insurance						
Provision for claims reported by policyholders		38,885	(2,901)	38,311	(1,628)	36,683
Provision for incurred but not reported claims ("IBNR")		13,704	-	26,298	-	26,298
Provision for outstanding claims	(i)	52,589	(2,901)	64,609	(1,628)	62,981
Provision for unearned premiums	(ii)	9,702	(1,108)	14,033	(1,069)	12,964
		62,291	(4,009)	78,642	(2,697)	75,945
(i) Provision for outstanding claims						
At 1 January		64,609	(1,628)	62,981	(2,240)	60,300
Claims incurred in the current accident year		5,515	(2,636)	19,274	(532)	18,742
Claims paid during the year	22(a) & (b)	(17,535)	1,363	(17,205)	1,144	(16,061)
At 31 December		52,589	(2,901)	64,609	(1,628)	62,981
(ii) Provision for unearned premiums						
At 1 January		14,033	(1,069)	12,964	(1,248)	17,260
Premiums written during the year	17(a) & (b)	23,675	(2,888)	28,413	(3,001)	25,412
Premiums earned during the year		(28,006)	2,849	(32,888)	3,180	(29,708)
At 31 December		9,702	(1,108)	14,033	(1,069)	12,964

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12. Deferred taxation

	Note	2016 RM'000	2015 RM'000
At 1 January		490,278	434,124
Recognised in profit or loss	24	<u>(53,101)</u>	<u>56,154</u>
At 31 December		<u>437,177</u>	<u>490,278</u>

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.

Movement in recognised temporary differences during the year presented after appropriate offsetting:

	At 1.1.2015 RM'000	Recognised in profit or loss (Note 24) RM'000	At 31.12.2015/ 1.1.2016 RM'000	Recognised in profit or loss (Note 24) RM'000	At 31.12.2016 RM'000
Property and equipment capital allowances	962	(486)	476	325	801
Fair value gains and losses	173,202	(1,506)	171,696	(13,815)	157,881
Unallocated surplus	259,960	58,146	318,106	(39,611)	278,495
Net tax liabilities	<u>434,124</u>	<u>56,154</u>	<u>490,278</u>	<u>(53,101)</u>	<u>437,177</u>

13. Provisions

	Note	2016 RM'000	2015 RM'000
At 1 January		206,565	177,197
Provision for the year		<u>69,798</u>	<u>48,682</u>
		276,363	225,879
Utilised during the year		<u>(19,142)</u>	<u>(19,314)</u>
At 31 December		<u>257,221</u>	<u>206,565</u>
Payable after 12 months	31	<u>231,617</u>	<u>193,274</u>

Provisions consist of Retirement Gratuity Benefits payable to eligible life field agents upon retirement.

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14. Insurance payables

	2016 RM'000	2015 RM'000
Due to agents and intermediaries	146,379	128,925
Advance premiums and premium deposits	<u>273,490</u>	<u>233,605</u>
	<u>419,869</u>	<u>362,530</u>

15. Other payables

	2016 RM'000	2015 RM'000
Other payables and accrued liabilities	242,612	277,651
Amounts due to related companies	<u>70,628</u>	<u>27,071</u>
	<u>313,240</u>	<u>304,722</u>

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

16. Operating revenue

	Note	2016 RM'000	2015 RM'000
Gross earned premiums	17	6,259,697	5,827,095
Investment income	18	<u>989,577</u>	<u>906,628</u>
		<u>7,249,274</u>	<u>6,733,723</u>

17. Net premiums

	Note	2016 RM'000	2015 RM'000
(a) Gross earned premiums			
Insurance contracts:			
Life		6,231,691	5,794,207
General	11(b)(i)	<u>23,675</u>	<u>28,413</u>
		6,255,366	5,822,620
Change in unearned premiums provision		<u>4,331</u>	<u>4,475</u>
		<u>6,259,697</u>	<u>5,827,095</u>
(b) Premiums ceded to reinsurers			
Insurance contracts:			
Life		(89,243)	(86,423)
General	11(b)(ii)	<u>(2,888)</u>	<u>(3,001)</u>
		(92,131)	(89,424)
Change in unearned premiums provision		<u>39</u>	<u>(179)</u>
		<u>(92,092)</u>	<u>(89,603)</u>
Net earned premiums		<u>6,167,605</u>	<u>5,737,492</u>

18. Investment income

	2016	2015
	RM'000	RM'000
Rental income	8,746	7,143
Financial assets at FVTPL - held for trading		
Interest income		
- Malaysian government securities	34,587	32,171
- Cagamas bonds	10,736	11,745
- Unquoted debentures, bonds and loan stocks of corporations	473,524	415,601
Dividend income		
- Equity securities quoted in Malaysia	317,840	300,692
- Equity securities unquoted in Malaysia	229	229
Financial assets at LAR		
Interest income		
- Fixed and call deposits	92,542	95,633
- Policy loans	36,265	34,283
- Mortgage loans	47	58
- Other loans	33	29
- Others	15,028	9,044
	<u>989,577</u>	<u>906,628</u>

19. Realised gains and losses

	2016	2015
	RM'000	RM'000
Property and equipment		
Realised (losses)/gains	(2)	168
FVTPL financial assets - held for trading		
Realised gains:		
Equity securities		
- quoted in Malaysia	70,551	77,592
Debt securities		
- unquoted in Malaysia	3,503	3,957
Other securities		
- collective investment scheme	6,484	2,413
- investment in structured products	82	3,598
	<u>80,620</u>	<u>87,560</u>

19. Realised gains and losses (continued)**FVTPL financial assets - held for trading (continued)**

	2016	2015
	RM'000	RM'000
Realised losses:		
Equity securities		
- quoted in Malaysia	(66,308)	(59,266)
Debt securities		
- unquoted in Malaysia	(2,412)	(6,154)
Other securities		
- collective investment scheme	(431)	-
- investment in structured products	-	(17)
	<u>(69,151)</u>	<u>(65,437)</u>
Total net realised gains from FVTPL financial assets	<u>11,469</u>	<u>22,123</u>
	<u>11,467</u>	<u>22,291</u>

20. Fair value gains and losses

	2016	2015
	RM'000	RM'000
Financial assets - held for trading	<u>(185,491)</u>	<u>(40,144)</u>

21. Fee and commission income

	2016	2015
	RM'000	RM'000
Policyholder administration and investment management services	<u>281,412</u>	<u>264,142</u>

22. Net benefits and claims

	Note	2016	2015
		RM'000	RM'000
(a) Gross benefits and claims paid			
Insurance contracts:			
Life		(2,777,535)	(2,702,014)
General	11(b)(i)	<u>(17,535)</u>	<u>(17,205)</u>
		<u>(2,795,070)</u>	<u>(2,719,219)</u>
(b) Claims ceded to reinsurers			
Insurance contracts:			
Life		25,299	22,303
General	11(b)(i)	<u>1,363</u>	<u>1,144</u>
		<u>26,662</u>	<u>23,447</u>

22. Net benefits and claims (continued)

	Note	2016 RM'000	2015 RM'000
(c) Gross change in contract liabilities			
Insurance contracts:			
Life		(2,100,056)	(1,733,681)
General		<u>12,020</u>	<u>(2,069)</u>
		<u>(2,088,036)</u>	<u>(1,735,750)</u>
(d) Change in contract liabilities ceded to reinsurers			
Insurance contracts:			
Life		3,512	(2,662)
General		<u>1,273</u>	<u>(612)</u>
		<u>4,785</u>	<u>(3,274)</u>

23. Management expenses

	Note	2016 RM'000	2015 RM'000
Employee benefits expense	23(a)	276,187	273,519
Directors' remuneration	23(b)	981	822
Auditors' remuneration:			
Statutory audit			
- current year		1,055	975
Bad debts written off		10	9
Rental of premises		31,776	28,906
Retirement benefits		4,405	3,720
Property and equipment written off		648	227
Intangible assets written off		1	-
Outsourcing fees (#)		45,869	36,318
Other expenses		<u>257,856</u>	<u>223,267</u>
		<u>618,788</u>	<u>567,763</u>

- This amount is in relation to fees for outsourcing services provided by a related company.

	2016 RM'000	2015 RM'000
(a) Employee benefits expense		
Wages and salaries	227,299	219,782
Social security contributions	1,173	920
Contributions to defined contribution plan, EPF	28,936	25,449
Other benefits	<u>18,779</u>	<u>27,368</u>
	<u>276,187</u>	<u>273,519</u>

23. Management expenses (continued)

(b) Directors' remuneration

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

	Note	2016 RM'000	2015 RM'000
Chief Executive Officer/Executive Director:			
- Philip Seah Cheng Chua			
Salaries and other emoluments		-	1,494
Bonus		-	563
Long Term Incentive Plan Dividend		-	59
Contributions to defined contribution plan, EPF		-	192
Estimated money value of benefits-in-kind		-	206
		-	2,514
- Gan Leong Hin			
Salaries and other emoluments		1,671	317
Bonus		1,075	-
Contributions to defined contribution plan, EPF		245	43
Estimated money value of benefits-in-kind		190	39
		3,181	399
Non-Executive Directors:			
- Ho Yik		162	148
- Abdul Khalil bin Abdul Hamid		172	156
- Dato' Dr Gan Khuan Poh @ Gan Miew Chee		180	166
- Chan Wan Siew		22	148
- Richard Patrick George Duxbury		162	148
- Kevin Lee Holmgren		162	56
- Soon Dee Hwee		121	-
		981	822
	28(b)	4,162	3,735
Amount included in employee benefits expense		2,991	2,668

Non-Executive Directors only received director's fees as remuneration.

24. Taxation

	Note	2016 RM'000	2015 RM'000
Current income tax:			
Malaysian income tax		181,179	126,056
(Over)/Under provision in prior years		<u>(1,032)</u>	<u>2,181</u>
		180,147	128,237
Deferred tax:			
Relating to origination and reversal of temporary differences			
Current year		(13,490)	(1,992)
Unallocated surplus		<u>(39,611)</u>	<u>58,146</u>
	12	<u>(53,101)</u>	<u>56,154</u>
		<u>127,046</u>	<u>184,391</u>

The income tax for the Shareholder's and General funds are calculated based on the tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year. The income tax for the Life fund is calculated based on tax rate of 8% (2015: 8%) of the estimated assessable surplus for the financial year. The taxes of the respective funds are disclosed in Note 33 – Insurance funds.

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

	2016 RM'000	2015 RM'000
Profit before taxation	<u>604,592</u>	<u>772,666</u>
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	145,102	193,167
Taxation rate differential of 16% in respect of Life Fund (2015: 17%)	456	(17,559)
Income not subject to tax	(504,423)	(448,753)
Non deductible expenses	532,059	486,520
Section 110B tax credit set-off	(31,224)	(15,879)
Single tier tax relief	(13,892)	(15,286)
(Over)/Under provision in prior years	<u>(1,032)</u>	<u>2,181</u>
Tax expense for the year	<u>127,046</u>	<u>184,391</u>

25. Earnings per share

Basic earnings per share is calculated by dividing profit for the financial year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2016	2015
Profit attributable to ordinary shareholders (RM'000)	477,546	588,275
Weighted average number of shares in issue ('000)	100,000	100,000
Basic earnings per share (sen)	<u>477.55</u>	<u>588.28</u>

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares as at the reporting date.

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

26. Dividends

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2016			
Final 2015 single tier	380.0	380,000	31 May 2016
Interim 2016 single tier	195.0	<u>195,000</u>	28 November 2016
		<u>575,000</u>	
2015			
Final 2014 single tier	133.0	<u>133,000</u>	19 June 2015

27. Capital commitments

	2016 RM'000	2015 RM'000
Capital expenditure		
Approved and contracted for:		
Property and equipment	<u>2,417</u>	<u>5,752</u>

28. Related party disclosures

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

	2016	2015
	RM'000	RM'000
Transactions:		
Outsourcing fees and other charges		
- Prudential Services Asia Sdn Bhd	46,029	36,593
Recharge expenses		
- Prudential Holdings Limited	23,409	19,344
Recharge income		
- Prudential BSN Takaful Berhad	(63,380)	(63,598)
Management fees		
- Eastspring Investments Berhad	<u>59,978</u>	<u>50,407</u>
Balances:		
Amount due to related companies:		
- Prudential Services Asia Sdn Bhd	(29,332)	(2,267)
- Prudential Holdings Limited	(16,571)	(9,632)
- Eastspring Investments Berhad	(21,604)	(10,404)
- Pru Life Insurance Corporation of UK	(252)	(169)
- Prudential Plc	-	(226)
- Eastspring Investments (Singapore) Limited	-	(29)
- Prudential Services Singapore Pte Ltd	-	(53)
Amount due from related companies:		
- Prudential BSN Takaful Berhad	26,072	28,594
- Prudential Vietnam Assurance Private Ltd	9	-
- Prudential Foundation Ltd	<u>270</u>	<u>-</u>

28. Related party disclosures (continued)

(b) Compensation of key management personnel

Members of key management comprise those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company.

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

	Note	2016 RM'000	2015 RM'000
Short-term employee benefits		13,656	15,433
Contributions to defined contribution plan, EPF		1,450	1,349
Share-based payment		<u>5,291</u>	<u>5,988</u>
		<u>20,397</u>	<u>22,770</u>
Included in the total key management personnel are:			
Directors' remuneration	23(b)	<u>4,162</u>	<u>3,735</u>

29. Risk management framework

The Board of Directors assumes the overall responsibility for the Company's financial risk management. In order to fulfil this responsibility, the Board approves the overall framework for managing the risks faced by the Company. The Risk Management Committee is responsible for risk management strategies, policies and risk tolerance limits and meets every quarter to consider reports on key risks identified and the management of such risks.

Detailed policies and procedures exist at the Company and the items of particular relevance to financial risk management include:

- i) Actuarial Procedures Manuals: Policies for all aspects of actuarial management including for regulatory reporting and asset-liability management.
- ii) Financial Procedures Manuals: Financial control policies including for financial reporting, capital commitments and business planning.
- iii) Investment Guidelines: Investment management policies including the setting out of mandates between the Company and its fund managers.

29. Risk management framework (continued)

Capital management framework

The Company's capital management policy is to maintain a strong capital base to meet policyholders' obligation and regulatory requirement, to create shareholder value, deliver sustainable returns to shareholders and to support future business growth.

The RBC Framework for the insurance industry came into effect on 1 January 2009. Under the RBC Framework, the insurer is responsible for setting an individual target capital level and maintaining the capital adequacy level above the target. The Company considers the business direction, the changing business environment and risk profile in setting the individual target capital level. The individual target capital level is higher than the minimum capital requirement of 130% under the RBC Framework regulated by BNM.

In addition to satisfying the RBC Framework, the Company is also subject to Prudential Group's economic capital framework. Stress tests are conducted on the statement of financial position of the Company to ensure that the Company will have adequate economic capital to qualify for its targeted minimum financial strength rating in a comprehensive array of scenarios.

There were no changes in the Company's approach to capital management during the year.

Governance and regulatory framework

The Company is required to comply with the requirements of the Financial Services Act, relevant laws and guidelines from BNM, Life Insurance Association of Malaysia ("LIAM") and Persatuan Insurans Am Malaysia ("PIAM").

The Company is also required to comply with the Prudential Group's Corporate Governance Manual Framework. If there is any conflict with the local laws or regulations, the stricter will apply.

30. Insurance risk

(i) Life insurance contracts

The risk under any insurance contract is the uncertainty as to when the insured event occurs and the severity of the claim.

Insurance risk to the Company includes mortality, morbidity, expenses, lapse and surrenders. Concentrations of insurance risk may arise from events such as catastrophe which could impact heavily on the Company's liabilities. Such concentrations may arise from a single insurance contract or through a group of related contracts, and relate to circumstances where significant liabilities could arise.

30. Insurance risk (continued)

(i) Life insurance contracts (continued)

For life insurance participating contracts, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the policyholder.

For life insurance non-participating contracts, the risk arises from the Company's obligation to pay guaranteed policy benefits even when investment returns are poor, or when claim experience is worse than expected.

For investment-linked contracts, the investment risks are borne by policyholder while charges to cover the cost of insurance are usually fully reviewable to allow for any deterioration in experience.

The Company has in place policies, guidelines and limits in managing the insurance risk which include monitoring of actual experience, or using reinsurance to diversify risk and limit net losses potential. The Company has catastrophe reinsurance to limit the catastrophic losses.

The concentration of risk for each type of insurance contract is reflected by the insurance contract liabilities as disclosed in Note 11(a).

Multi-period stress test is performed annually to demonstrate the significant threats to the financial condition of the Company and the potential impact of the management actions. Through this exercise, the Company can make an informed decision on future business growth and risk management.

Key assumptions

The determination of insurance contract liabilities is dependent on the assumptions made by the management of the Company. These estimates are reviewed and adjusted (if necessary) each year in order to establish contract liabilities which reflect best estimate assumptions and Provision of Risk Margin for Adverse Deviation (PRAD).

Information on key assumptions to which the estimation of liabilities is sensitive is provided below.

Mortality

Mortality refers to the rates at which death occurs for a defined group of people. Insurance mortality assumptions are generally based on five-year averages of Company's own experience as well as industry past and emerging experience.

30. Insurance risk (continued)

(i) Life insurance contracts (continued)

Morbidity

Morbidity refers to both the rates of accidents or sickness and the rates of recovery therefrom. Generally, the assumptions are based on reinsurer's morbidity rates, adjusted to reflect Company's own experience.

Persistency

Insurance contracts are terminated through lapses and surrenders, where lapses represent termination of policies due to non-payment of premiums and surrender represent voluntary termination of policies by policyholder. Generally, persistency assumptions are based on five-year averages of the Company's own experience, with allowance for any trend after taking into account policyholders' behaviour. The assumption varies by product type and policy duration.

Discount rate

Generally, the time value of money is considered by discounting the insurance contract liabilities using risk free rate. The RBC Framework requires all insurers to use Malaysian government securities yield as the risk free rate.

Expenses

Insurance contract liabilities provide for future policy-related expenses which includes cost of premium collection, preparation and mailing of policy statements and related direct and indirect expenses and overheads. Expense assumptions are mainly based on the Company's recent experience using an internal expense allocation methodology. Future expense assumptions reflect inflation.

30. Insurance risk (continued)

(i) Life insurance contracts (continued)

Sensitivities

The sensitivity analysis below shows the impact on Shareholder's Equity from movements in key assumptions used to value life insurance contract liabilities.

	Change in assumptions	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity net of tax RM'000
2016				
(Dr)/Cr				
Risk-free discount rate	+1%	(140,104)	142,715	108,463
Mortality/Morbidity	+10%	164,986	(137,896)	(104,801)
Expenses	+10%	32,741	(22,375)	(17,005)
Lapse and surrender rates	+10%	2,980	(18,706)	(14,217)
2015				
(Dr)/Cr				
Risk-free discount rate	+1%	(110,717)	112,342	84,257
Mortality/Morbidity	+10%	222,063	(195,255)	(146,441)
Expenses	+10%	38,783	(28,315)	(21,236)
Lapse and surrender rates	+10%	15,631	(30,475)	(22,856)

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

(ii) General insurance contracts

Insurance risk

The principal risk the Company faces under its general insurance contracts arises from the risk that actual claims and benefit payments differ from expectations, due to fluctuations in timings, frequencies and severities of claims.

The Company is also exposed to external risks, such as risks arising from climate changes, natural disasters, terrorism activities, operational risks within its business units and concentration risks in its portfolio of risks insured. For longer tail claims which take some years to settle, claims amounts will also be subject to inflationary risks.

30. Insurance risk (continued)

(ii) General insurance contracts (continued)

Insurance risk (continued)

To address the risks identified above, the Company has adopted the following measures to manage its risks:

- Application of underwriting procedures which aim to accept risks consistent with guidelines and capacity, to ensure underwriting profitability.
- Claims management controls which aim to ensure valid claims are properly paid. Inflation risk is mitigated by taking expected inflation into account when estimating claims liabilities and when conducting the annual review of outstanding claims.
- Purchase of Excess of Loss reinsurance with the purpose of reducing concentration risks, increasing the Company's ability to write more diversified portfolios of risks by limiting its maximum losses.
- Inclusion of an appropriate adjustment of the outstanding claims liabilities to allow for expected IBNR claims.

Key assumptions

The key assumption used in the underlying liability estimates is that the Company's future claims development will be in line with past claims experience. Additionally, consideration will be given to the latest information available in establishing the case estimates.

IBNR claims are calculated based on internal statistics for all general insurance business lines rather than industry averages to reflect the higher relevancy of the Company's own past experience. The UPR is calculated by assuming that the premium liability is proportional to the outstanding policy term and risk margin is factored in the IBNR.

Overall, the Company's general insurance business is relatively small with a net premium income of RM25 million and net outstanding claims provision of RM50 million as at end of 2016. Therefore, any mis-estimation of liability is not likely to have any meaningful impact on the Company's capital adequacy level.

31. Financial risks

Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer, an intermediary or counterparty to settle its financial or contractual obligations to the Company as and when they fall due.

The Company's exposure to credit risk arises mainly from investment in corporate debt securities as well as deposits placed with licensed financial institutions in Malaysia. To manage this, the Company regularly evaluates minimum credit ratings of financial instruments issued and the strict adherence to the credit exposure guidelines for fixed income securities and deposits.

There is no significant concentration of credit risk as at end of the reporting date.

Credit exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Note	Insurance and shareholder's funds RM'000	Investment -linked funds RM'000	Total RM'000
2016				
LAR	5(a)			
Fixed and call deposits		1,751,180	335,160	2,086,340
Policy loans		578,573	-	578,573
Mortgage loans		547	-	547
Unsecured loans		32,572	-	32,572
Financial investments at FVTPL	5(b)			
Malaysian government securities		984,848	82,200	1,067,048
Debt securities		7,738,612	2,606,601	10,345,213
Investment in structured products		1,435	7,736	9,171
Reinsurance assets	6	17,960	-	17,960
Insurance receivables	7	39,943	-	39,943
Other receivables	8	293,434	58,375	351,809
Cash and bank balances		33,133	566	33,699
		<u>11,472,237</u>	<u>3,090,638</u>	<u>14,562,875</u>

31. Financial risks (continued)

Credit risk (continued)

Credit exposure (continued)

	Note	Insurance and shareholder's funds RM'000	Investment -linked funds RM'000	Total RM'000
2015				
LAR	5(a)			
Fixed and call deposits		2,035,880	521,844	2,557,724
Policy loans		549,882	-	549,882
Mortgage loans		898	-	898
Unsecured loans		26,955	-	26,955
Financial investments at FVTPL	5(b)			
Malaysian government securities		660,992	80,838	741,830
Debt securities		6,737,742	2,512,163	9,249,905
Investment in structured products		1,385	8,346	9,731
Reinsurance assets	6	13,136	-	13,136
Insurance receivables	7	40,765	-	40,765
Other receivables	8	271,354	78,759	350,113
Cash and bank balances		22,097	673	22,770
		<u>10,361,086</u>	<u>3,202,623</u>	<u>13,563,709</u>

Credit exposure by credit rating

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

	Investment grade*(BBB to AAA) RM'000	Not rated RM'000	Investment -linked funds RM'000	Total RM'000
2016				
LAR				
Fixed and call deposits	1,564,080	187,100	335,160	2,086,340
Policy loans	-	578,573	-	578,573
Mortgage loans	-	547	-	547
Unsecured loans	-	32,572	-	32,572
Financial investments at FVTPL				
Malaysian government securities	984,848	-	82,200	1,067,048
Debt securities	7,738,612	-	2,606,601	10,345,213
Investment in structured products	219	1,216	7,736	9,171
Reinsurance assets	17,960	-	-	17,960
Insurance receivables	-	39,943	-	39,943
Other receivables	458	292,976	58,375	351,809
Cash and bank balances	32,818	315	566	33,699
	<u>10,338,995</u>	<u>1,133,242</u>	<u>3,090,638</u>	<u>14,562,875</u>

31. Financial risks (continued)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Investment grade*(BBB to AAA) RM'000	Not rated RM'000	Investment -linked funds RM'000	Total RM'000
2015				
LAR				
Fixed and call deposits	1,890,120	145,760	521,844	2,557,724
Policy loans	-	549,882	-	549,882
Mortgage loans	-	898	-	898
Unsecured loans	-	26,955	-	26,955
Financial investments at FVTPL				
Malaysian government securities	660,992	-	80,838	741,830
Debt securities	6,737,742	-	2,512,163	9,249,905
Investment in structured products	211	1,174	8,346	9,731
Reinsurance assets	13,136	-	-	13,136
Insurance receivables	-	40,765	-	40,765
Other receivables	90,373	180,981	78,759	350,113
Cash and bank balances	21,874	223	673	22,770
	<u>9,414,448</u>	<u>946,638</u>	<u>3,202,623</u>	<u>13,563,709</u>

* Based on public ratings assigned by external rating agencies including RAM Holdings (RAM), Malaysian Rating Corporation Berhad (MARC) and other equivalent rating agencies.

The ageing of receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Collective impairment RM'000	Net RM'000
2016				
Not past due	391,752	-	-	391,752
Past due 0 - 3 months	-	-	-	-
Past due 4 - 6 months	-	-	-	-
Past due 7 - 12 months	-	-	-	-
Past due more than 12 months	828	(828)	-	-
	<u>392,580</u>	<u>(828)</u>	<u>-</u>	<u>391,752</u>
2015				
Not past due	390,878	-	-	390,878
Past due 0 - 3 months	-	-	-	-
Past due 4 - 6 months	-	-	-	-
Past due 7 - 12 months	-	-	-	-
Past due more than 12 months	828	(828)	-	-
	<u>391,706</u>	<u>(828)</u>	<u>-</u>	<u>390,878</u>

31. Financial risks (continued)

Liquidity risk

Liquidity risk is the risk that the Company may be unable to generate sufficient cash reserves to meet payment of its obligation in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management seeks to ensure that even under adverse conditions, the Company has access to the funds necessary to cover surrender, withdrawals, claims and maturing liabilities.

Maturity profiles

The table below summarises the maturity profile of the Company's financial liabilities based on remaining undiscounted contractual obligations, including interest payable.

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

Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

2016	Carrying value RM'000	Under 1 year RM'000	1 - 5 years RM'000	More than 5 years RM'000	No maturity date RM'000	Total RM'000
Insurance contract liabilities:						
Par	8,568,975	224,618	699,293	5,149,031	2,496,033	8,568,975
Non-par	1,113,828	-	423,736	(12,949)	703,041	1,113,828
Investment-linked:						
Non-unit	366,644	-	-	-	366,644	366,644
Unit	13,140,628	-	-	-	13,140,628	13,140,628
Provision for outstanding claims:						
Life insurance	478,379	478,379	-	-	-	478,379
General insurance	52,589	52,589	-	-	-	52,589
Provisions	257,221	10,102	64,882	166,735	15,502	257,221
Insurance payables	419,869	419,869	-	-	-	419,869
Other payables	313,240	313,240	-	-	-	313,240
Total liabilities	24,711,373	1,498,797	1,187,911	5,302,817	16,721,848	24,711,373

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31. Financial risks (continued)

Liquidity risk (continued)

Maturity profiles (continued)

2015	Carrying value RM'000	Under 1 year RM'000	1 - 5 years RM'000	More than 5 years RM'000	No maturity date RM'000	Total RM'000
Insurance contract liabilities:						
Par	7,728,917	200,384	686,022	4,454,364	2,388,147	7,728,917
Non-par	605,413	148	188,652	(52,029)	468,642	605,413
Investment-linked:						
Non-unit	295,044	-	-	-	295,044	295,044
Unit	12,464,157	-	-	-	12,464,157	12,464,157
Provision for outstanding claims:						
Life insurance	513,050	513,050	-	-	-	513,050
General insurance	64,609	64,609	-	-	-	64,609
Provisions	206,565	6,494	50,890	142,384	6,797	206,565
Insurance payables	362,530	362,530	-	-	-	362,530
Other payables	304,722	304,722	-	-	-	304,722
Total liabilities	22,545,007	1,451,937	925,564	4,544,719	15,622,787	22,545,007

31. Financial risks (continued)

Market risk

Market risk is the risk of an unexpected change in fair value of a financial instrument due to adverse movement in prices, interest rate, or foreign currency exchange rates.

Price risk is the risk that the market values of financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

Interest rate risk is the risk that the value of future cash flow of a financial instrument will fluctuate due to impact of changes in market interest rates on interest income from cash and bank balances and other fixed income instruments.

In managing this risk, the Company monitors interest rate movements and other economic indicators and takes appropriate measures to ensure that the investment objectives can continue to be met. In addition, this risk is mitigated as the Company holds a diversified portfolio of securities.

The Company faces foreign currency risk, primarily because some of its investments in equity, debt securities and collective investment schemes are held in currencies other than Ringgit Malaysia to improve the diversification of its portfolio.

Such foreign investments are limited to 10% with no country limit, subject to foreign investments being in jurisdiction with sovereign ratings at least equivalent to that of Malaysia.

The sensitivity analysis on price risk, as below is analysed based on the assumption that all other variables remain constant and the Company's equity investments moved in correlation with FTSE Bursa Malaysia KLCI (FBMKLCI).

	Change in market price		Impact on profit or loss		Impact on insurance contract liabilities	
	2016	2015	2016	2015	2016	2015
			RM'000	RM'000	RM'000	RM'000
FBMKLCI	<u>+/-10%</u>	<u>+/-10%</u>	<u>+/-18,192</u>	<u>+/-17,822</u>	<u>+/-1,111,901</u>	<u>+/-1,021,117</u>

31. Financial risks (continued)

Market risk (continued)

The sensitivity analysis on interest rate risk, as below is analysed based on the assumption that all other variables remain constant and the Company's debt securities fair value moved in correlation with the prevailing market profit rates:

	Change in interest rate		Impact on profit or loss		Impact on insurance contract liabilities	
	2016	2015	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Interest rate	+25bp	+25bp	(36,761)	(22,754)	(187,366)	(156,809)
Interest rate	-25bp	-25bp	37,879	23,339	193,019	161,159

The Company faces foreign currency risk, primarily because some of its investments in equity, debt securities and collective investment schemes are held in currencies other than Ringgit Malaysia to improve the diversification of its portfolio. Below is the sensitivity analysis on foreign currency risk which the Company has exposed to:

Denominated in	Change in variables		Impact on profit or loss		Impact on insurance contract liabilities	
	2016	2015	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
USD	+/-5%	+/-5%	-	-	+/-37,994	+/-33,219
EURO	+/-5%	+/-5%	-	-	+/-17,539	+/-15,684
SGD	+/-5%	+/-5%	-	-	+/-273	-

Operational risk

Operational risk relates to the risk of potential loss from a breakdown in internal processes, systems, deficiencies in people and management or operational failure arising from external events. The Company mitigates operational risk by establishing appropriate policies, internal control and procedures and contingency planning.

Fair value information

The carrying amounts of fixed and call deposits with financial institutions, policy loans, mortgage loans, unsecured loans, cash and bank balances, short-term receivables and short-term payables reasonably approximate their fair value due to relatively short-term nature of these financial instruments.

The table below analyses financial instruments carried at fair value, by valuation hierarchy. There is no financial instrument not carried at fair value for which fair value is disclosed during the financial year.

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31. Financial risks (continued)

Fair value information (continued)

	Financial instruments carried at fair value				Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	
2016					
Financial assets					
Malaysian government securities	-	1,067,048	-	1,067,048	1,067,048
Debt securities	-	10,345,213	-	10,345,213	10,345,213
Equity securities	10,353,887	-	5,296	10,359,183	10,359,183
Unit and property trust funds	524,159	-	-	524,159	524,159
Foreign managed funds	-	1,213,189	-	1,213,189	1,213,189
Investment in structured products	1,435	7,736	-	9,171	9,171
	10,879,481	12,633,186	5,296	23,517,963	23,517,963
2015					
Financial assets					
Malaysian government securities	-	741,830	-	741,830	741,830
Debt securities	-	9,249,905	-	9,249,905	9,249,905
Equity securities	9,610,126	-	5,296	9,615,422	9,615,422
Unit and property trust funds	426,195	-	-	426,195	426,195
Foreign managed funds	-	1,063,107	-	1,063,107	1,063,107
Investment in structured products	1,385	8,346	-	9,731	9,731
	10,037,706	11,063,188	5,296	21,106,190	21,106,190

31. Financial risks (continued)

Fair value information (continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 principally includes exchange listed equities, mutual funds with quoted prices and exchange traded derivatives such as futures and options, unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active. It also includes other financial instruments (including net assets attributable to unit-holders of consolidated unit trusts and similar funds) where there is clear evidence that the year end valuation is based on a traded price in an active market.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 2 principally includes corporate bonds, foreign managed funds, national and non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes net assets attributable to unit-holders of consolidated unit trusts and similar funds and investment contract liabilities that are valued using observable inputs.

There has been no transfer between Level 1 and 2 fair values during the financial year (2015: no transfer in either directions).

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 principally includes investment in private equity funds, investments in property funds which are exposed to bespoke properties or risks, investment which are internally valued or subject to a significant number of unobservable assumptions and certain derivatives which are bespoke or long dated. It also includes debt securities which are rarely traded or traded in only privately negotiated transactions and where it is difficult to assert that these have been based on observable market data. The inherent nature of the vast majority of these assets means that, in normal market conditions, there is unlikely to be significant change in the specific underlying assets classified as Level 3.

31. Financial risks (continued)

Fair value information (continued)

Financial assets measured at fair value based on Level 3:

	Unquoted equity securities RM'000	Investment in structured products RM'000	Total RM'000
At 1 January 2015	5,296	60,170	65,466
Maturities	-	(57,889)	(57,889)
Fair value losses	-	(2,281)	(2,281)
At 31 December 2015/1 January 2016/ 31 December 2016	<u>5,296</u>	<u>-</u>	<u>5,296</u>

32. Regulatory capital requirements

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

	Note	2016 RM'000	2015 RM'000
Eligible Tier 1 Capital			
Share capital (paid-up)	9	100,000	100,000
Reserves, including retained earnings		<u>1,940,377</u>	<u>2,077,443</u>
		<u>2,040,377</u>	<u>2,177,443</u>
Deduction			
Intangible assets and deferred tax assets		<u>214</u>	<u>428</u>
Total capital available		<u>2,040,163</u>	<u>2,177,015</u>

The Company is in compliance with the RBC Framework.

33. Insurance funds

The Company's activities are organised by funds and segregated into the Life, General and Shareholder's funds in accordance with the Financial Services Act, 2013.

The statement of financial position and statement of profit or loss and other comprehensive income have been further analysed by funds and the Shareholders' and General Funds have been presented together as one fund.

The life insurance business offers a wide range of participating and non-participating Whole Life, Term Assurance, Endowment and Annuity products, as well as investment-linked products. The general insurance business offers general insurance products which include Motor, Fire and Personal Accidents products.

33. Insurance funds (continued)

Statement of financial position by funds as at 31 December 2016

	Shareholder's and General funds		Life fund		Elimination*		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Property and equipment	528	568	199,639	184,686	-	-	200,167	185,254
Intangible assets	-	-	65,900	-	-	-	65,900	-
Investments	279,779	556,954	25,936,216	23,684,695	-	-	26,215,995	24,241,649
Reinsurance assets	4,009	2,697	13,951	10,439	-	-	17,960	13,136
Insurance receivables	-	-	39,943	40,765	-	-	39,943	40,765
Other receivables	734,575	381,883	253,462	112,124	(636,228)	(143,894)	351,809	350,113
Tax recoverable	-	68,749	17,614	13,414	-	-	17,614	82,163
Cash and bank balances	2,467	2,154	31,232	20,616	-	-	33,699	22,770
Total assets	1,021,358	1,013,005	26,557,957	24,066,739	(636,228)	(143,894)	26,943,087	24,935,850
Equity, policyholders' funds and liabilities								
Total equity	879,981	852,000	881,900	1,007,335	-	-	1,761,881	1,859,335
Insurance contract liabilities	62,291	78,642	23,682,405	21,617,020	-	-	23,744,696	21,695,662
Deferred taxation	44	70	437,133	490,208	-	-	437,177	490,278
Provisions	69,092	72,124	188,129	134,441	-	-	257,221	206,565
Insurance payables	693	870	419,176	361,660	-	-	419,869	362,530
Tax payable	4,979	2,514	4,024	14,244	-	-	9,003	16,758
Other payables	4,278	6,785	945,190	441,831	(636,228)	(143,894)	313,240	304,722
Total liabilities	141,377	161,005	25,676,057	23,059,404	(636,228)	(143,894)	25,181,206	23,076,515
Total equity, policyholders' funds and liabilities	1,021,358	1,013,005	26,557,957	24,066,739	(636,228)	(143,894)	26,943,087	24,935,850

* Refers to elimination of Interfund balances.

33. Insurance funds (continued)

Statement of profit or loss and other comprehensive income by funds for the year ended 31 December 2016

	Shareholder's and		Life fund		Total	
	General funds					
	2016	2015	2016	2015	2016	2015
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	50,179	52,275	7,199,095	6,681,448	7,249,274	6,733,723
Gross earned premiums	28,006	32,888	6,231,691	5,794,207	6,259,697	5,827,095
Premiums ceded to reinsurers	(2,849)	(3,180)	(89,243)	(86,423)	(92,092)	(89,603)
Net earned premiums	25,157	29,708	6,142,448	5,707,784	6,167,605	5,737,492
Investment income	22,173	19,387	967,404	887,241	989,577	906,628
Realised gains and losses	(4)	(103)	11,471	22,394	11,467	22,291
Fair value gains and losses	5	83	(185,496)	(40,227)	(185,491)	(40,144)
Fee and commission income	-	-	281,412	264,142	281,412	264,142
Other operating income	69,069	66,613	12,733	6,690	81,802	73,303
Other income	91,243	85,980	1,087,524	1,140,240	1,178,767	1,226,220
Gross benefits and claims paid	(17,535)	(17,205)	(2,777,535)	(2,702,014)	(2,795,070)	(2,719,219)
Claims ceded to reinsurers	1,363	1,144	25,299	22,303	26,662	23,447
Gross change in contract liabilities	12,020	(2,069)	(2,100,056)	(1,733,681)	(2,088,036)	(1,735,750)
Change in contract liabilities ceded to reinsurers	1,273	(612)	3,512	(2,662)	4,785	(3,274)
Net benefits and claims	(2,879)	(18,742)	(4,848,780)	(4,416,054)	(4,851,659)	(4,434,796)
Fee and commission expense	(3,731)	(4,226)	(1,153,537)	(1,089,692)	(1,157,268)	(1,093,918)
Depreciation of property and equipment	(17)	(121)	(13,595)	(13,146)	(13,612)	(13,267)
Amortisation of intangible assets	(46)	-	(4,721)	-	(4,767)	-
Management expenses	(17,572)	(18,092)	(601,216)	(549,671)	(618,788)	(567,763)
Other operating expenses	(59,276)	(59,444)	(36,410)	(21,858)	(95,686)	(81,302)
Other expenses	(80,642)	(81,883)	(1,809,479)	(1,674,367)	(1,890,121)	(1,756,250)

33. Insurance funds (continued)**Statement of profit or loss and other comprehensive income by funds
for the year ended 31 December 2016 (continued)**

	Shareholder's and General funds		Life fund		Total	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before transfer	32,879	15,063	571,713	757,603	604,592	772,666
Transfer from revenue accounts	700,002	426,858	(700,002)	(426,858)	-	-
Profit before taxation	732,881	441,921	(128,289)	330,745	604,592	772,666
Taxation	(129,900)	(81,101)	2,854	(103,290)	(127,046)	(184,391)
Net profit/Total comprehensive income for the year	602,981	360,820	(125,435)	227,455	477,546	588,275

33. Insurance funds (continued)**Investment-linked funds****Statement of assets and liabilities as at
31 December 2016**

	2016	2015
	RM'000	RM'000
Assets		
Investments	13,195,929	12,685,957
Other receivable	58,375	78,759
Tax recoverable	15,265	-
Cash and bank balances	566	673
Total assets	<u>13,270,135</u>	<u>12,765,389</u>
Liabilities		
Deferred taxation	116,194	138,202
Tax payable	3,026	13,826
Other payables	10,287	149,204
Total liabilities	<u>129,507</u>	<u>301,232</u>
Net asset value of funds (Note 11(a))	<u>13,140,628</u>	<u>12,464,157</u>

**Statement of income and expenditure for the year ended
31 December 2016**

	2016	2015
	RM'000	RM'000
Investment income	435,157	419,357
Realised gains and losses	8,408	26,462
Fair value gains and losses	(275,159)	(137,204)
Fee and commission income	50,577	47,181
Other operating income	7,701	3,445
	<u>226,684</u>	<u>359,241</u>
Fee and commission expense	(226,647)	(213,232)
Profit before taxation	37	146,009
Taxation	7,344	(4,273)
Net profit/Total comprehensive income for the year	<u>7,381</u>	<u>141,736</u>

33. Insurance funds (continued)

Information on cash flows by funds for the year ended 31 December 2016

	Shareholder's and General funds		Life fund		Total	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from/(used in):						
Operating activities	575,336	132,515	110,436	55,769	685,772	188,284
Investing activities	(23)	(10)	(99,820)	(66,766)	(99,843)	(66,776)
Financing activity	(575,000)	(133,000)	-	-	(575,000)	(133,000)
Net increase/(decrease) in cash and bank balances	313	(495)	10,616	(10,997)	10,929	(11,492)
Cash and bank balances at beginning of year	2,154	2,649	20,616	31,613	22,770	34,262
Cash and bank balances at end of year	2,467	2,154	31,232	20,616	33,699	22,770



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