Building a better working world

Etiqa Insurance Berhad
(9557 T)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2016

9557 T

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

CONTENTS **PAGES**

9557 T

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

There have been no significant changes in the nature of the principal activities during the financial year.

RESULTS

	RM'000
Net profit for the financial year	349,907

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

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

DIVIDENDS

The amount of dividend paid by the Company since 31 December 2015 was as follows:

	RM'000
In respect of financial year ended 31 December 2015, final dividend of:	
- 131.50 sen per share, single-tier tax exempt dividend on 152,151,399 ordinary shares	200,079

The final dividend was declared on 4 April 2016 and paid on 25 May 2016.

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2016, of 111.73 sen per share on 152,151,399 ordinary shares, amounting to a dividend payable of RM169,998,758, will be proposed for shareholder's approval. The financial statements for the current financial year do not reflect such proposed dividends. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

MAYBANK GROUP EMPLOYEES' SHARE SCHEME ("ESS")

The Maybank Group ESS is governed by the by-laws approved by the shareholders of the ultimate holding company, Malayan Banking Berhad ("MBB"), at an Extraordinary General Meeting held on 13 June 2011. The ESS was implemented on 23 June 2011. It is in force for a maximum period of seven (7) years from the effective date and is administered by the ESS Committee The ESS consists of two (2) types of performance-based awards in the form of Employee Share Option Scheme ("ESOS") and Restricted Share Unit ("RSU").

The maximum number of ordinary shares of RM1 each in MBB available under the ESS should not exceed 10% of the total number of issued and paid-up capital of MBB at any point of time during the duration of the scheme.

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Datuk R. Karunakaran (redesignated as Chairman on 1 March 2016)
Mr. Philippe Pol Arthur Latour (appointed as Vice Chairman on 1 July 2016)
Dato' Johan Ariffin
Loh Lee Soon
Frank J.G Van Kempen
Koh Heng Kong
Normala @ Noraizah A. Manaf (appointed on 1 January 2017)
Dato' Mohd Salleh Hj Harun (resigned on 1 March 2016)
Zainal Abidin Jamal (resigned on 1 March 2016)
Gary Lee Crist (resigned on 1 July 2016)

Pursuant to Article 98 of the Company's Articles of Association, Dato' Johan Ariffin and Mr Frank J.G. Van Kempen shall retire at the forth coming Annual General Meeting ("AGM") of the Company and, being eligible, offer themselves for re-election.

Pursuant to Article 104 of the Company's Articles of Association, Mr. Philippe Pol Arthur Latour and Puan Normala @ Noraizah A. Manaf shall retire at the forth coming AGM of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that financial year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the ESOS and the RSU pursuant to the ESS.

DIRECTORS' BENEFITS (CONTD.)

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in Notes 33 and 41 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 he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares, ESOS and RSU of the ultimate holding company, MBB, during the financial year were as follows:

	Number of Ordinary Shares of RM1 each				
	At	<- Issued pursuant to ->			At
	1.1.2016	RSU	DRP*	Acquired	31.12.2016
Direct interest:					
Dato' Johan Ariffin	277,151	-	14,258	-	291,409
Indirect interest:					
Loh Lee Soon	-	-	-	1,000	1,000

* DRP = Dividend Reinvestment Plan

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

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is committed to ensuring that the highest standards of corporate governance are practised by the Company. This is a fundamental part in discharging their responsibilities to protect and enhance all stakeholders' values and the financial performance of the Company.

(a) Board Responsibilities

In discharging their duties, the Board is equally responsible to ensure compliance with the Financial Services Act 2013 ("the Act") and Bank Negara Malaysia's ("BNM") Policy Documents, including BNM/RH/GL003-1: *Minimum Standards for Prudential Management of Insurers (Consolidated)* and other directives. It also complies with the tenets of corporate governance by adopting best practices as stipulated under BNM/RH/GL003-2: *Prudential Framework of Corporate Governance for Insurers.*

CORPORATE GOVERNANCE (CONTD.)

(a) Board Responsibilities (Contd.)

Apart from its statutory responsibilities, the Board approves the Company's major investments, disposals and funding decisions. It ensures the implementation of appropriate systems to manage risks and also reviews and approves the strategies and financial objectives to be implemented by the management. These functions are carried out by the Board directly and/or through its various Committees.

The Board is responsible for creating the framework and policies within which the Company should be operating and the management is responsible for implementing them. This demarcation reinforces the supervisory role of the Board.

The Company has an organisational structure disclosing all the reporting lines as well as clearly documented job descriptions for all management and executive employees and formal performance appraisals are conducted annually.

The directors, with different backgrounds and experiences, collectively bring with them a wide range of skills and specialised knowledge that is required for the management of the Company.

The composition of the Board and the attendance of the Directors at meetings during the year are as follows:

	Number of Board meetings attended	%
Datuk R. Karunakaran (redesignated as Chairman on 1 March 2016)	10/10	100
Mr. Philippe Pol Arthur Latour (appointed as Vice Chairman on 1 July 2016)	5/5	100
Dato' Johan Ariffin	9/10	90
Loh Lee Soon	10/10	100
Frank J.G Van Kempen	9/10	90
Koh Heng Kong	10/10	100
Normala @ Noraizah A. Manaf (appointed on 1 January 2017)	-	-

The Board met 10 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(b) Management Accountability

Whilst the Board is responsible for creating the framework and policies within which the Company should be operating, the management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

(c) Corporate Independence

Significant related party transactions and balances are disclosed in Note 41 to the financial statements.

(d) Internal Controls and Audit

The Board exercises overall responsibility on the Company's internal controls and its effectiveness. The Board recognises that risks cannot be eliminated completely; as such, the systems and processes put in place are aimed at minimising and managing risk. The Company has established internal controls which cover all levels of personnel and business processes to ensure the Company's operations run in an effective and efficient manner 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 an independent examination of controls by the internal audit function, ensures that corrective action, where necessary, is taken in a timely manner.

The internal audit reports are tabled at the first scheduled Audit Committee ("AC") meeting after the date of receipt of these reports. The internal audit function reports to the Board through the AC, and its findings and recommendations are communicated to senior management and all levels of staff concerned.

The AC is established at the level of the holding company, Maybank Ageas Holdings Berhad ("MAHB"). The composition of the AC and the attendance of its members at meetings during the year are as follows:

	Number of AC meetings attended	%
Loh Lee Soon (Chairman) Independent Non-Executive Director	10/10	100
Gary Lee Crist Non-Independent Non-Executive Director	10/10	100
Koh Heng Kong Independent Non-Executive Director	10/10	100

The AC met 10 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(e) Risk Management

The Board established the Risk Management Committee ("RMC") to support sound corporate governance and processes. The primary objective of the RMC is to oversee senior management's activities in managing key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

The RMC is established at the holding company's level. In discharging its responsibilities, the RMC is complemented by the Investment Committee of the Board and assisted by the Asset Liability Committee ("ALCO") established by the management.

The risk management framework of the Company comprises three main components i.e. policy-making, monitoring and control and risk acceptance while the risk management approach would premise on three lines of defence i.e. risk-taking unit, risk control unit and internal audit. Risks have been classified into major risk categories, which are made up of financial, insurance operational and enterprise risks.

There is an on-going process in identifying, evaluating and managing the significant risks faced by the Company. This is achieved through designated management functions and internal controls, which include the setting up of operational risk limits for all core activities.

The RMC is established at the level of the holding company, MAHB. The composition of the RMC and the attendance of its members at meetings during the year are as follows:

	Number of RMC meetings attended	%
Koh Heng Kong (appointed as Chairman on 1 January 2016) Independent Non-Executive Director	10/10	100
Gary Lee Crist Non-Independent Non-Executive Director	10/10	100
Loh Lee Soon (appointed on 1 January 2016) Independent Non-Executive Director	10/10	100

The RMC met 10 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(f) Nomination and Remuneration Committee

The Company will continue to leverage on the existing Nomination and Remuneration Committee ("NRC") of the Board which had taken effect as a merged committee of the ultimate holding company, MBB on 27 May 2010 as part of its governance structure.

The primary objective of the NRC is to establish a documented, formal and transparent procedure for the appointment of directors and the Chief Executive Officer ("CEO") and key senior officers as well as the assessment of the effectiveness of individual directors, the Board as a whole and the performance of the CEO and key senior officers.

In additon, the NRC is also responsible to provide a formal and transparent procedure in developing remuneration policies for directors, CEO and key senior officers and ensuring compensation is competitive and consistent with the Company's culture, objectives and strategy.

The composition of the NRC and the attendance of its members at meetings during the year are as follows:

	Number of NRC meetings attended	%
Dato' Dr Tan Tat Wai Independent Non-Executive Director	13/13	100
Datuk R. Karunakaran Independent Non-Executive Director	13/13	100
Bapak Edwin Gerungan Non-Independent Non-Executive Director	13/13	100
Cheng Kee Check (appointed on 25 April 2016) Non-Independent Non-Executive Director	9/9	100
Dato' Seri Ismail Shahudin (Chairman) (deceased on 30 July 2016) Independent Non-Executive Director	-	-

The NRC met 13 times during the year.

CORPORATE GOVERNANCE (CONTD.)

(g) Investment Committee

The Investment Committee ("IC") is established at the level of the holding company, MAHB and reports to the Boards of Directors of Etiqa Insurance Berhad ("EIB") and Etiqa Takaful Berhad ("ETB").

The objectives of the IC include:

(i) to present an opinion on the long-term strategic investment policy including real estate, as a recommendation during the Risk Management Meeting ("RMM") or to the RMC/Board based on the ALCO's advice;

(ii) to establish tactical investment policy on the basis of the proposal by the investment manager and within the boundaries laid out in the Investment Management Mandates ("IMM");

(iii) to test the execution of the policy by the investment manager against the strategic and tactical investment policy;

(iv) to evaluate, review and maintain the Investment Management Guidelines ("IMG"), based on ALCO's advice;

(v) to evaluate, negotiate conditions with, appoint or dismiss external fund managers, custodians, banks and other financial intermediaries;

(vi) to assess investment performance of proprietary portfolios and unit linked funds; and

(vii) to discuss peer review on investment performance.

The composition of the IC and the attendance of its members at meetings during the year are as follows:

	Number of IC meetings attended	%
Datuk Abdul Farid bin Alias (Chairman) Non-Independent Executive Director	4/4	100
Dato' Mohamed Rafique Merican (appointed on 1 January 2016) Non-Independent Non-Executive Director	4/4	100
Philippe Pol Arthur Latour (appointed on 1 July 2016) Non-Independent Non-Executive Director	0/2	0

CORPORATE GOVERNANCE (CONTD.)

(g) Investment Committee (Contd.)

	Number of IC meetings attended	%
Frank J.G Van Kempen (ceased as member on 1 July 2016) Non-Independent Non-Executive Director	2/2	100

The IC met 4 times during the year.

(h) Board Oversight Committee for Land Development ("BOC Land")

The BOC Land is a governance body which carries an oversight function on the development of a 38-storey infrastructure at Dataran Maybank managed by the Property Development Steering Committee ("PDSC").

To achieve this objective, the BOC Land will need to approve as well as review and monitor all development matters related to this tower as endorsed by the PDSC.

The BOC Land reports to the Board.

The composition of the BOC Land and the attendance of its members at meetings during the year are as follows:

	Number of BOC Land meetings attended	%
Dato' Johan Ariffin (Chairman) Independent Non-Executive Director	6/6	100
Loh Lee Soon Independent Non-Executive Director	6/6	100
Muhammad Fuad Hassan (appointed on 14 October 2016) Head, Group Property, Maybank	1/1	100

CORPORATE GOVERNANCE (CONTD.)

(h) Board Oversight Committee for Land Development ("BOC Land") (Contd.)

	Number of BOC Land meetings attended	%
Kamaludin Ahmad Chief Executive Officer, MAHB	5/6	83
Jasmin Abu Bakar (appointed as member from 1 January 2016 to 17 August 2016) Head, Property, Security & Valuation (PSV), Maybank	2/3	67

The BOC Land met 6 times during the year.

(i) Board Oversight Committee on Re-organisation of Entities Pursuant to Financial Services Act 2013 ("FSA") and Islamic Financial Services Act 2013 ("IFSA") ("BOC FSA and IFSA")

The BOC FSA and IFSA carries an oversight function of the re-organisation of EIB and ETB under the FSA and IFSA.

In this objective, the BOC FSA and IFSA is responsible in revising the MAHB Group's functional structure to ensure compliance with the FSA and the IFSA in a manner that would promote growth sustainability.

The BOC FSA and IFSA reports to the Boards of Directors of EIB and ETB respectively.

The composition of the BOC FSA and IFSA and the attendance of its members at meetings during the year are as follows:

	Number of BOC FSA and IFSA meetings attended	%
Zainal Abidin Jamal (Chairman) Non-Independent Non-Executive Director	11/11	100

CORPORATE GOVERNANCE (CONTD.)

(i) Board Oversight Committee on Re-organisation of Entities Pursuant to Financial Services Act 2013 ("FSA") and Islamic Financial Services Act 2013 ("IFSA") ("BOC FSA and IFSA") (Contd.)

	Number of BOC FSA and IFSA meetings attended	%
Frank J.G Van Kempen Non-Independent Non-Executive Director	9/11	82
Koh Heng Kong Independent Non-Executive Director	11/11	100

The BOC FSA and IFSA met 11 times during the year.

(j) Board Oversight Committee for Information Technology ("BOC IT")

The BOC IT is a governance body which carries an oversight function for IT related activities.

The BOC is established at the level of the holding company, MAHB.

The composition of the BOC IT members are as follows:

Loh Lee Soon (Chairman)
Independent Non-Executive Director

Philippe Pol Arthur Latour
Non-Independent Non-Executive Director

Kamaludin Ahmad
Chief Executive Officer, MAHB

Mohd Suhail Amar Suresh
Group Chief Technology Officer, Maybank

Hans Van Wuijckhuijse
Regional Director, Business Development Ageas Asia

CORPORATE GOVERNANCE (CONTD.)

(k) Public Accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

(l) Financial Reporting

The Board takes responsibility for presenting a balanced and comprehensive assessment of the Company's operations and prospects each time it releases its annual financial statements. The AC of the Board assists by scrutinising the information to be disclosed to ensure accuracy, adequacy and completeness.

FINANCIAL HOLDING COMPANY

The financial holding company is Maybank Ageas Holdings Berhad ("MAHB").

IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors regard MAHB, a company incorporated in Malaysia, as the Company's immediate holdings company and MBB, a company incorporated in Malaysia, as the ultimate holding company.

OTHER STATUTORY INFORMATION

(a) Before the statement of financial position and income statement of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts;

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

(iii) to ascertain that there was adequate provision for its insurance contract liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for Insurers issued by BNM.

OTHER STATUTORY INFORMATION (CONTD.)

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

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and

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

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

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

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

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

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

(f) In the opinion of the directors:

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

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

SIGNIFICANT EVENT

There were no significant events during the financial year other than as disclosed in Note 42 to the financial statements.

SUBSEQUENT EVENT

There were no material events subsequent to the end of the financial year that require disclosures or adjustments to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 16 February 2017.

DATUK R. KARUNAKARAN

LOH LEE SOON

9557 T

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Datuk R. Karunakaran and Loh Lee Soon, being two of the directors of Etiqa Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 20 to 164 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of the results and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 16 February 2017.

DATUK R. KARUNAKARAN

LOH LEE SOON

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Zaharudin Daud, being the officer primarily responsible for the financial management of Etiqa Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 20 to 164 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed ZAHARUDIN DAUD
at Kuala Lumpur in Wilayah
Persekutuan on 16 February 2017

ZAHARUDIN DAUD

PESURUHJAYA SUMPAH
W 632
SAMUGAM VASSOO
AMN
MALAYSIA

Before me,

Commissioner for Oaths

No.10-1, Jalan Bangsar Utama 1,
Bangsar Utama,
59000 Kuala Lumpur.

EY
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9557 T

Independent auditors' report to the member of Etiqa Insurance Berhad (Incorporated in Malaysia)

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Etiqa Insurance Berhad ("the Company"), which comprise the statement of financial position as at 31 December 2016, the income statement, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the financial year ended 31 December 2016, and summary of significant accounting policies and other explanatory notes, as set out on pages 20 to 164.

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 its cash flows for the year ended 31 December 2016 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 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 Directors' Report , but does not include the financial statements of the Company and our auditors' report thereon.

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

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9557 T

Independent auditors' report to the member of
Etiqa Insurance Berhad (Contd.)
(Incorporated in Malaysia)

Information Other than the Financial Statements and Auditors' Report Thereon (Cont'd.)

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's 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.

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Independent auditors' report to the member of
Etiqa Insurance Berhad (Contd.)
(Incorporated in Malaysia)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd.)

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

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

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

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

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

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

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Independent auditors' report to the member of
Etiqa Insurance Berhad (Contd.)
(Incorporated in Malaysia)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd.)

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

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Yeo Beng Yean
No. 03013/10/2018 J
Chartered Accountant

Kuala Lumpur, Malaysia
16 February 2017

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Assets			
Property, plant and equipment	3	112,942	112,897
Investment properties	4	753,885	713,901
Prepaid land lease payments	5	18,964	19,267
Intangible assets	6	61,789	47,671
Investment in associate	8	152	152
Investments	9	11,262,921	11,694,701
Financing receivables	11	248,266	255,718
Reinsurance assets	12	3,315,144	3,272,164
Insurance receivables	13	264,854	324,615
Other receivables	14	213,025	260,428
Derivative assets	15	-	2,610
Current tax assets		51,545	30,013
Cash and bank balances		111,722	74,656
		16,415,209	16,808,793
Assets classified as held for sale	16	-	787
Total Assets		16,415,209	16,809,580
Equity and Liabilities:			
Share capital	17	152,151	152,151
Reserves	18	2,696,740	2,543,114
Total Equity		2,848,891	2,695,265
Liabilities			
Insurance contract liabilities	19	11,780,468	12,380,520
Subordinated obligation	20	500,000	500,000
Derivative liabilities	15	56,603	59,283
Deferred tax liabilities, net	21	586,137	516,255
Insurance payables	22	299,694	356,098
Other payables	23	333,296	292,032
Interest payable on subordinated obligation	20	10,120	10,127
Total Liabilities		13,566,318	14,114,315
Total Equity and Liabilities		16,415,209	16,809,580

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Operating revenue	24	2,933,398	3,022,093
Gross earned premiums	25(a)	2,564,001	2,502,495
Earned premiums ceded to reinsurers	25(b)	(1,036,675)	(974,723)
Net earned premiums		1,527,326	1,527,772
Fee and commission income	26	76,187	48,040
Investment income	27	530,231	541,925
Realised gains	28	92,566	118,046
Fair value gains/(losses)	29	37,282	(36,251)
Other operating expenses	30	(2,295)	(43,961)
Other revenue		733,971	627,799
Gross benefits and claims paid	31(a)	(2,539,603)	(2,770,851)
Claims ceded to reinsurers	31(b)	654,117	470,429
Gross change in contract liabilities	31(c)	410,421	1,796,500
Change in contract liabilities ceded to reinsurers	31(d)	156,520	(800,234)
Net benefits and claims		(1,318,545)	(1,304,156)
Management expenses	32	(269,797)	(263,577)
Fee and commission expenses	34	(171,964)	(156,763)
Interest on subordinated obligation		(20,643)	(20,650)
Taxation borne by policyholders	35	(36,461)	(24,346)
Other expenses		(498,865)	(465,336)
Profit before tax from continuing operations		443,887	386,079
Taxation	35	(93,980)	(103,128)
Net profit for the year from continuing operations		349,907	282,951
Discontinued operation:	16		
Net profit from discontinued operation		-	1,005
Net profit for the year		349,907	283,956
Basic and diluted earnings per share (sen) from:	36		
- Continuing operations		229.97	185.97
- Discontinued operation		-	0.66

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Net profit for the year		349,907	283,956
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to income statement			
Change in value of AFS financial assets, net			
- Fair value changes		(16,930)	89,116
- Transfer to profit or loss upon disposal	28	(10,945)	(47,623)
- Fair value adjustment for AFS financial assets backing the Participating Fund	19	30,875	(13,330)
Tax effect relating to AFS financial assets	35	(480)	(7,160)
		2,520	21,003
Currency translation			
- Currency translation differences		1,278	6,445
- Transfer to profit or loss upon disposal	16	-	(31,201)
		1,278	(24,756)
Other comprehensive income/(loss) from continuing operations for the year, net of tax		3,798	(3,753)
Other comprehensive income from discontinued operation for the year, net of tax	16	-	6,449
Total other comprehensive income, net of tax		3,798	2,696
Total comprehensive income for the year		353,705	286,652
Comprising of:			
- Continuing operations		353,705	279,198
- Discontinued operation		-	7,454
		353,705	286,652

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

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

	<----	----	----	Non-distributable	---->	Retained Earnings			
	Share Capital RM'000	Share Premium RM'000	Available-for-Sale Reserves RM'000	Revaluation Reserves RM'000	Currency Translation Reserves RM'000	Non-Par Fund Surplus RM'000	Distributable Retained Profits RM'000	Sub-total Retained Earnings RM'000	Total Equity RM'000
At 1 January 2016	152,151	17,728	19,705	11,647	13,565	1,546,328	934,141	2,480,469	2,695,265
Net profit for the year	-	-	-	-	-	172,755	177,152	349,907	349,907
Other comprehensive income for the year	-	-	2,520	-	1,278	-	-	-	3,798
Total comprehensive income for the year	-	-	2,520	-	1,278	172,755	177,152	349,907	353,705
Dividend on ordinary shares (Note 37)	-	-	-	-	-	-	(200,079)	(200,079)	(200,079)
At 31 December 2016	152,151	17,728	22,225	11,647	14,843	1,719,083	911,214	2,630,297	2,848,891
At 1 January 2015	152,151	17,728	(1,876)	11,647	32,450	1,404,524	1,162,021	2,566,545	2,778,645
Net profit for the year	-	-	-	-	-	149,404	134,552	283,956	283,956
Other comprehensive income/(losses) for the year	-	-	21,581	-	(18,885)	-	-	-	2,696
Total comprehensive income/(losses) for the year	-	-	21,581	-	(18,885)	149,404	134,552	283,956	286,652
Transfer from non-Par fund surplus upon recommendation by Appointed Actuary[1]	-	-	-	-	-	(7,600)	7,600	-	-
Dividend on ordinary shares (Note 37)	-	-	-	-	-	-	(370,032)	(370,032)	(370,032)
At 31 December 2015	152,151	17,728	19,705	11,647	13,565	1,546,328	934,141	2,480,469	2,695,265

[1] In accordance with the Financial Services Act 2013, the unallocated surpluses of non-participating ("Non-Par") funds are only available for distribution to the shareholders upon approval by the Appointed Actuary. The approved transfer from non-Par fund unallocated surplus for the financial year ended 31 December 2016 was NIL (31 December 2015 was RM7,600,000, net of tax at 25%).

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

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ETIQA INSURANCE BERHAD
(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:		
- Continuing operations	443,887	386,079
- Discontinued operation	-	922
	443,887	387,001
Adjustments for:		
Taxation borne by policyholders	36,461	24,346
Depreciation of property, plant and equipment	9,610	10,362
Amortisation of intangible assets	6,431	4,639
Fair value (gains)/losses on financial assets at FVTPL	(28,332)	138,111
Fair value gains on investment properties	(8,950)	(101,860)
Amortisation of prepaid land lease payments	303	304
Amortisation of premium on investments	8,935	11,582
Gain on disposal of property, plant and equipment	(13)	-
Net gain on foreign exchange	(4,280)	(110,268)
(Reversal of impairment losses)/impairment losses on reinsurance assets	(2,894)	2,234
Reversal of impairment losses on insurance receivables	(9,407)	(5,826)
Bad debts written off	1,915	6,144
(Reversal of impairment losses)/impairment losses on other receivables	(36)	60
Reversal of impairment losses on financing receivables	(771)	(133)
Non cash items relating to discontinued operations	-	(1,427)
Net gain on disposal of investments	(65,141)	(118,046)
Gain on disposal of assets held for sale	(27,412)	-
Interest income	(468,211)	(465,808)
Interest expense	20,643	20,650
Net impairment losses on investments	24,064	160,248
Gross dividend income	(41,747)	(59,781)
Rental income	(48,288)	(48,374)
Loss from operations before changes in operating assets and liabilities	(153,233)	(145,842)
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(40,086)	822,310
Decrease in insurance receivables	67,422	8,553
Decrease in other receivables	54,343	62,770
Decrease in financing receivables	8,223	8,846
Decrease/(increase) in amounts due from related parties	235	(3,854)
Increase/(decrease) in other payables	31,778	(8,331)
Carried forward	(31,318)	744,452

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS (CONTD.)
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)		
Brought forward	(31,318)	744,452
Decrease in insurance contract liabilities	(571,255)	(1,858,155)
Decrease in insurance payables	(56,404)	(8,407)
Decrease/(increase) in LAR	361,634	(914,750)
Increase in assets held for sale	-	1,589
Interest income received	457,251	482,962
Dividend income received	45,026	62,702
Rental income received	49,138	45,472
Currency translation reserve	1,278	12,316
Cash generated/(used in) from operations	255,350	(1,431,819)
Tax paid	(80,109)	(51,892)
Net cash generated/(used in) from operations	175,241	(1,483,711)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investments	8,639,438	8,620,558
Purchase of investments	(8,523,870)	(6,820,573)
Proceeds from sale of property, plant and equipment	41	-
Additions to IPUC	(31,034)	(25,112)
Purchase of property, plant and equipment	(9,671)	(10,792)
Purchase of intangible assets	(20,549)	(22,274)
Proceeds from disposal of branch (Note 42)	-	135,478
Proceeds from disposal of asset held for sale	28,199	-
Net cash generated from investing activities	82,554	1,877,285
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(200,079)	(370,032)
Interest paid on subordinated obligation	(20,650)	(20,594)
Net cash used in financing activity	(220,729)	(390,626)
Net increase in cash and cash equivalents	37,066	2,948
Cash and cash equivalents at beginning of year	74,656	71,708
Cash and cash equivalents at end of year	111,722	74,656
Cash and cash equivalents comprise:		
Cash and bank balances:		
General insurance and shareholder's funds	38,434	32,954
Life insurance fund	73,288	41,702
	111,722	74,656

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

1. CORPORATE INFORMATION

The principal activities of the Company include the underwriting of general insurance, life insurance and investment-linked businesses.

There have been no significant changes in the nature of the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 19, Tower C, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur, Malaysia.

The immediate and ultimate holding companies of the Company are Maybank Ageas Holdings Berhad ("MAHB") and Malayan Banking Berhad ("MBB") respectively, both of which are incorporated in Malaysia. MBB is a licensed commercial bank listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 16 February 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

(a) 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.

On September 2016, the Companies Act 2016 ("New Act") was enacted and will replace the Companies Act, 1965 in Malaysia with the New Act to be effective on 31 January 2017. The key changes of the New Act are disclosed in Note 2.6.

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework for Insurers ("RBC Framework") issued by BNM as at the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.1 Basis of Preparation (Contd.)

(a) Statement of compliance (Contd.)

At the beginning of the current financial year, there were no new and revised MFRSs which were mandatory for the financial periods beginning on or after 1 January 2016. The Company, however, has adopted those Amendments to MFRSs effective for the annual periods beginning on or after 1 January 2016 as disclosed in Note 2.3.

(b) Basis of measurement

The financial statements of the Company have been prepared on a historical cost basis, unless otherwise indicated in the summary of significant acccounting policies.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM") and rounded to the nearest thousand (RM'000) unless otherwise stated.

(d) Use of estimates and judgements

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

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

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

- General insurance contract liabilities — Note 2.2(xv)
- Life insurance contract liabilities — Note 2.2 (xvi)

The notes referred above present a description of the measurement and recognition of the liabilities including a general explanation on the estimation methods used. Details on the sensitivity of the carrying amounts of the general insurance and the life insurance liabilities to the methods, assumptions and estimates underlying their calculation are disclosed in Note 44.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies

(i) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land has an unlimited useful life and, therefore is not depreciated.

Work-in-progress is also not depreciated as this asset is not available for use. When work-in-progress is completed and the asset is available for use, it is reclassified to the relevant category of property, plant and equipment and depreciation of the asset begins.

Buildings on leasehold land are depreciated over the shorter of 50 years or the remaining period of the respective leases, whichever is shorter.

Depreciation on property, plant and equipment is computed on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Buildings on freehold land	2%
Furniture, fittings, equipment and renovations	20% - 25%
Computers and peripherals	14% - 25%
Electrical and security equipment	10%
Motor vehicles	25%

The residual values, useful lives and depreciation method are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds and the net carrying amount is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(ii) Investment Properties

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

Gain or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the financial year in which they arise.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to self-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from self-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment set out in Note 2.2(i) up to the date of change in use. Where the fair value of the property exceeds its carrying amount, the difference or revaluation surplus is recognised in other comprehensive income and accumulated in equity under the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the revaluation reserve.

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

Investment property under construction ("IPUC") is measured at fair value (when the fair value is reliably determinable). IPUC for which fair value cannot be determined reliably is measured at cost less impairment.

The fair values of IPUC are determined at the end of the reporting period based on the opinion of a qualified independent valuer and valuations are performed using either the residual method approach or discounted cash flow approach, as deemed appropriate by the valuer. Each IPUC is individually assessed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(iii) Leases

(a) Classification

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

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of the building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(b) Finance Leases - The Company as Lessee

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

Buildings held under finance lease are recognised as assets in the Company's statement of financial position and are measured in accordance with MFRS 116 *Property, Plant and Equipment* or MFRS 140 *Investment Properties.*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(iii) Leases (Contd.)

(c) Operating Leases - The Company as Lessor

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

(d) Operating Leases - The Company as Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis. In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and buildings elements in proportion to the relative fair values for leasehold interests in the land and buildings elements of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(iv) Intangible Assets

Intangible assets include software development costs and computer software. Intangible assets acquired separately are measured on initial recognition at fair value. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Amortisation is charged to the profit or loss. Work-in-progress is also not depreciated as this asset is not available for use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(iv) Intangible Assets (Contd.)

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level.

The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

(a) Software Development Costs

Software development costs are tested for impairment annually and represent development expenditure on software. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. When development is complete and the asset is available for use, it is reclassified to computer software and amortisation of the asset begins. During the period of which the asset is not yet in use, it is tested for impairment annually.

(b) Computer Software

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

(v) Investment In Associate

An associate is an entity in which the Company has significant influence and that is neither a subsidiary nor joint-venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In the Company's financial statements, the investment in associate is stated at cost less accumulated impairment losses. On disposal of such investment, the difference between the net disposal proceeds and their carrying amount is included in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vi) Financial Assets

Financial assets are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instruments.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of financial assets at initial recognition and this depends on the purpose for which the financial assets were acquired or originated. The categories include financial assets at fair value through profit or loss ("FVTPL"), loans and receivables ("LAR") and available-for-sale ("AFS") financial assets.

(a) Financial Assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading ("HFT") and financial assets designated as at FVTPL upon initial recognition. Financial assets are classified as HFT if they are acquired for the purpose of selling or repurchasing in the near term. HFT financial assets also include derivatives and separated embedded derivatives.

Financial assets can only be designated as at FVTPL upon initial recognition if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment 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 (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vi) Financial Assets (Contd.)

(a) Financial Assets at FVTPL (Contd.)

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or losses on financial assets at FVTPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL are recognised separately in profit or loss as part of other losses or other income and investment income respectively. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

(b) LAR

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as LAR. The accounting policies with respect to insurance receivables and reinsurance assets are disclosed in Note 2.2(x) and Note 2.2(ix) respectively. Financial assets classified in this category include financing receivables, advances and other receivables.

These financial assets are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost using the effective interest method less accumulated impairment losses.

(c) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the two preceding categories.

After initial recognition, AFS financial assets are subsequently measured at fair value. Any gains or losses from changes in the fair value of AFS financial assets are recognised in other comprehensive income except for impairment losses, foreign exchange gains and losses on monetary instruments, dividend income and interest calculated using the effective interest method which are recognised in profit or loss.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vi) Financial Assets (Contd.)

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or the Company has transferred substantially all the risks and rewards of the financial asset. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gains or losses that had been recognised in other comprehensive income is recognised in profit or loss.

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

(vii) Fair Value of Financial Assets at FVTPL and AFS Financial Assets

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market prices for assets at the close of business at the reporting date.

For financial assets in quoted and unquoted unit and real estate investment trusts, fair value is determined by reference to published prices. Investments in unquoted equity instruments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are stated at cost and assessed for impairment at each reporting date.

For non-exchange traded financial assets such as unquoted fixed income securities i.e. unquoted bonds, Malaysian Government Securities ("MGS"), Government Investment Issues ("GII"), government guaranteed bonds, Khazanah bonds, fair values are determined by reference to indicative bid prices obtained from Bondweb and Malaysian Retail Bond Portal provided by Bond Pricing Agency Malaysia ("BPAM"). In the case of any downgraded or defaulted bond, internal valuations will be performed to determine the fair value of the bond. The fair values of structured deposits are based on market prices obtained from the respective issuers. The market value of Negotiable Certificates of Deposit ("NCD") are determined by reference to BNM's Interest Rate Swap.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vii) Fair value of Financial Assets at FVTPL and AFS Financial Assets (Contd.)

Over-the-counter derivatives comprise of foreign exchange forward contracts, currency swap contracts and options. Over-the-counter derivatives are revalued at each reporting date, based on valuations provided by the respective counterparties in accordance with market convention.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value which is the cost of the deposit/placement.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instruments or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment, except in the case of financial assets at FVTPL where the transaction costs are recognised in profit or loss.

(viii) Impairment

(a) Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset.

Insurance receivables

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

Insurance receivables are initially assessed individually for those receivables that are deemed to be individually significant. If such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(viii) Impairment (Contd.)

(a) Financial Assets (Contd.)

Insurance receivables (Contd.)

Receivables that are not individually significant or that have been individually assessed with no evidence of impairment are grouped together for collective impairment assessment. These receivables are grouped within similar credit risk characteristics for collective assessment using such data as considered appropriate for purposes of grouping.

Collective loss estimates are based on the historical loss experience of the Company which could include the Company's past experience in collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables. The product of collective loss estimates and grouped receivables represents the expected impairment losses for that portfolio of receivables. The impairment loss is recognised in profit or loss.

The methodology and assumptions used in determining collective loss estimates are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Impairment losses on insurance receivables are recognised as a reduction against the carrying amount through the use of an allowance account. When an insurance receivable becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off in the financial statements are recognised in profit or loss.

Subsequent reversals of impairment loss are recognised when the decrease can be related objectively to an event occurring after the impairment was recognised to the extent that the carrying amount of the asset does not exceed its amortised cost had the impairment loss not been recognised. The reversal is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(viii) Impairment (Contd.)

(a) Financial Assets (Contd.)

AFS financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that AFS financial assets are impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal payment and amortisation) and its current fair value, less any impairment losses previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on equity investments classified as AFS financial assets are not reversed through profit or loss in subsequent periods. Increases in fair value, if any, subsequent to impairment are recognised in other comprehensive income. For debt instruments classified as AFS financial assets, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after impairment.

Unquoted equity securities carried at cost

If there is objective evidence that an impairment loss on unquoted equity securities carried at cost has been incurred, the carrying amount is written down to the estimated recoverable amount which is determined as the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The impairment loss is recognised in profit and loss and such impairment losses are not reversed subsequent to its recognition.

Financing, loans and receivables

Financing, loans and receivables are impaired and impairment losses are incurred only if there is objective evidence of impairment loss as a result of the occurrence of loss events after initial recognition. An impairment loss 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(viii) Impairment (Contd.)

(b) Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying value of an asset exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and its written down to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited such that the carrying amount of the asset does not exceed its recoverable amount nor does it exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

(ix) Reinsurance Assets

The Company cedes insurance risk in the normal course of its business. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. For both ceded and assumed reinsurance, premiums, claims and benefits paid or payable are presented on a gross basis.

Reinsurance arrangements, entered into by the Company, that meet the classification requirements of insurance contracts as described in Note 2.2(xiv) are accounted for as noted below. Arrangements that do not meet these classification requirements are accounted for as financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(ix) Reinsurance Assets (Contd.)

Reinsurance assets represent amounts recoverable from reinsurers for insurance contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the underlying insurance contract and the terms of the relevant reinsurance arrangement.

At each reporting date, or more frequently, the Company determines whether objective evidence exists that reinsurance assets are impaired. Objective evidence of impairment for reinsurance assets are similar to those noted for insurance receivables as described in Note 2.2(viii)(a). If any such evidence exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

(x) Insurance Receivables

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

If there is objective evidence that an insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. Objective evidence of impairment for insurance receivables and the determination of consequential impairment losses are as described in Note 2.2(viii)(a).

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

(xi) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and bank balances.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xii) Non-current Assets Held-for-Sale and Discontinued Operation

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

A component of the Company is classified as a discontinued operation when it has been disposed of or classified as held for sale. In addition, the component must represent a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or a subsidiary acquired exclusively with a view to resale.

A discontinued operation is excluded from the results of continuing operations and presented as a single amount described as net profit for the year from the discontinued operation in the income statement.

(xiii) Equity Instruments

Ordinary shares are classified as equity. Dividend on ordinary shares is recognised and accounted for in equity in the year in which they are declared.

(xiv) Product Classification

The Company issues contracts that contain insurance risk or both insurance risk and financial risk.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xiv) Product Classification (Contd.)

An insurance contract is a contract under which an entity has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines whether significant insurance risk has been accepted by comparing benefits paid or payable on the occurrence of an insured event against benefits paid or payable if the insured event does not occur. If the ratio of the former exceeds the latter by 5% or more, the insurance risk accepted is deemed to be significant.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

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

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

(a) likely to be a significant portion of the total contractual benefits;

(b) whose amount or timing is contractually at the discretion of the issuer; and

(c) contractually based on the:

- performance of a specified pool of contracts or a specified type of contract; or

- realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

- the profit or loss of the entity or fund that issues the contract.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xiv) Product Classification (Contd.)

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 their discretion as to the quantum and timing of their payment to contract holders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, are held within insurance contract liabilities as at the end of the reporting date.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF, or if the host insurance contract and/or investment contract itself is measured at fair value through profit or loss.

When an insurance contract contains both a financial risk (or deposit) component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying components are required to be unbundled unless all obligations and rights arising from the deposit component have already been accounted for. Any premium relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

(xv) General Insurance Contract Liabilities

The general insurance contract liabilities of the Company comprise claim liabilities and premium liabilities.

(a) Claim Liabilities

Claim liabilities represent the Company's obligations, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at reporting date. Claim liabilities are the estimated provision for claims reported, claims incurred but not reported ("IBNR"), claims incurred but not enough reserved ("IBNER") and related claims handling costs. Claim liabilities are measured at best estimate and include a provision of risk margin for adverse deviation ("PRAD") as prescribed by BNM.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xv) General Insurance Contract Liabilities (Contd.)

(a) Claim Liabilities (Contd.)

Liabilities for outstanding claims are recognised upon notification by policyholders.

Claim liabilities are determined based upon valuations performed by the Appointed Actuary, using a range of actuarial claims projection techniques based on, amongst others, actual claims development patterns. Claim liabilities are not discounted.

(b) Premium Liabilities

Premium liabilities represent the Company's future obligations on insurance contracts as represented by premiums received for risks that have not yet expired. The movement in premium liabilities is released over the term of the insurance contracts and is recognised as premium income.

In accordance with the valuation requirements of the RBC Framework, premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of businesses or the best estimate value of the reinsurer's unexpired risk reserves ("URR") at the end of the financial year and a PRAD as prescribed by BNM.

- **Unearned premium reserves ("UPR")**

  The UPR represents the portion of the premiums of insurance policies written that relate to the unexpired periods of policies at the end of the financial year. In determining the UPR as at the reporting date, the method that most accurately reflects the actual unearned premium is used as follows:

  - 25% method for marine cargo and aviation cargo, and transit business;

  - all other classes of business, except treaty, using time-apportionment basis over the period of the risks, after deducting commissions, not exceeding limits specified by BNM; that relate to the unexpired periods of policies at the end of the financial year; and

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xv) General Insurance Contract Liabilities (Contd.)

(b) Premium Liabilities (Contd.)

- **Unearned premium reserves ("UPR") (Contd.)**

  - all other classes of treaty business with a deduction of commission; at the following bases:
    i) 1/8th method for quaterly statement
    ii) 1/24th method for monthly statement

- **Unexpired risk reserves ("URR")**

  The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force as at the reporting date and also includes allowance for 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. URR is estimated via an actuarial valuation performed by an Appointed Actuary.

(xvi) Life Insurance Contract Liabilities

Life insurance contract liabilities are determined in accordance with the RBC Framework. All life insurance liabilities have been valued using a prospective actuarial valuation based on the sum of the present value of future benefits and expenses less future gross considerations arising from the policies discounted at the appropriate discount rate. This method is known as the gross premium valuation method.

For non-participating business, the expected future cash flows of guaranteed benefits are determined using best estimate assumptions with an appropriate allowance for PRAD from expected experience such that an overall level of sufficiency of policy reserves at the 75% confidence level is secured. For participating business, the higher of the guaranteed benefit liabilities or the total benefit liabilities at fund level is taken. In computing total benefit liabilities, the expected cash flows of total guaranteed and non-guaranteed benefits are determined using best estimate assumptions together with the assumption that the current bonus rate to policyholders will be maintained.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xvi) Life Insurance Contract Liabilities (Contd.)

The liabilities in respect of the non-unit component of a non-participating deferred annuity and investment-linked policy have been valued at the risk-free discount rate by projecting future cash flows to ensure that all future outflows can be met at the product level without recourse to additional finance or capital support at any future time during the duration of the investment-linked policy. The value of the unit component is the net asset value ("NAV") of the fund.

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

For yearly renewable policies covering death or survival contingencies, the liabilities have been valued on an unexpired risk basis.

For yearly renewable policies covering other contingencies such as medical benefits, recognised liabilities comprises the best estimate premium and claim liabilities with appropriate allowance for PRAD.

Adjustments to the liabilities at each reporting date are recorded in profit or loss. Profits originating from margins of adverse deviation on run-off contracts, are recognised in profit or loss over the life of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off.

(xvii) Financial Liabilities

Financial liabilities, within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement*, are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. During the financial year and as at the reporting date, the Company did not classify any of its financial liabilities at FVTPL.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xvii) Financial Liabilities (Contd.)

The Company's other financial liabilities include other payables and subordinated obligation. Other payables are subsequently measured at amortised cost using the effective interest method.

Subsequent to initial recognition, subordinated obligation is recognised at amortised cost using the effective interest method. The subordinated obligation is classified as a current liability unless the Company has a conditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

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

(xviii) Liability Adequacy Test

At each reporting date, the Company reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Company, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Company discounts all contractual cash flows and compares this against the carrying value of insurance contract liabilities. Any deficiency is recognised in profit or loss.

(xix) Insurance Payables

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xx) Offsetting of Financial Assets and Financial Liabilities

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

(xxi) Premium Income

Premiums represent consideration paid for an insurance contract and is accounted for as follows:

(a) General Insurance Business

Premium income is recognised in the financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year upon the issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the reporting date are accrued at that date.

Inward facultative reinsurance premiums are recognised in the financial year in respect of the facultative risks accepted during that particular financial year, as in the case of direct policies, following the individual risks' inception dates.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance premiums are recognised in the same financial year as the original policies to which the reinsurance relates.

(b) Life Insurance Business

Premium income is recognised as soon as the amount of the premium can be reliably measured. Initial premium is recognised from inception date and subsequent premium are recognised on due dates. At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxi) Premium Income (Contd.)

(b) Life Insurance Business (Contd.)

Outward reinsurance premiums are recognised in the same financial year as the original policies to which the reinsurance relates.

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

Creation/cancellation of units is recognised in the financial statements at the next valuation date, after the request to purchase/sell units have been received from the policyholders.

(xxii) Benefits and Claims Expenses

(a) General Insurance Business

Claim expenses represent compensation paid or payable on behalf of the insured in relation to a specific loss event that has occurred. They include claims, handling costs and settlement costs and arise from events that have occurred up to the end of the reporting date even if they had not been reported to the Company.

(b) Life Insurance Business

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

Benefits and claims expenses, including settlement costs less reinsurance recoveries, are accounted for using the case basis method and for this purpose, the amounts payable under a policy are recognised as follows:

- maturity and other policy benefit payments due on specified dates are treated as claims payable on the due dates; and

- 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 (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxii) Benefits and Claims Expenses (Contd.)

(b) Life Insurance Business (Contd.)

Recoveries on reinsurance claims are accounted for in the same financial year as the original claims are recognised.

(xxiii) Commission Expenses and Acquisition Costs

(a) General Insurance Business

The gross 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.

(b) Life Insurance Business

Gross 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 premiums to reinsurers, are charged to profit or loss in the period in which they are incurred.

(xxiv) Other Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of the revenue can be measured reliably.

(a) Interest Income

Interest income is recognised using the effective interest method.

(b) Dividend Income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxiv) Other Revenue Recognition (Contd.)

(c) Rental Income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(d) Management Fees

Management fee is recognised on an accrual basis for provision of bureau services and insurance related services to offshore reinsurers in accordance with the terms and conditions of the relevant agreements, when services are rendered.

(xxv) Fee and Commission Income

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

Management fee income earned from the investment-linked business is recognised on an accrual basis based on the NAV of the investment-linked funds.

Commission income is derived from reinsurers in the course of ceding premiums to reinsurers.

(xxvi) Employee Benefits

(a) Short-term Benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxvi) Employee Benefits (Contd.)

(b) Defined Contribution Plans

As required by law, the Company makes contributions to the Employees Provident Fund ("EPF"). The foreign branches make contributions to the respective countries' statutory pension schemes, including the Singapore Central Provident Fund ("CPF") and the Tabung Amanah Pekerja of Brunei ("TAP"). Such contributions are recognised as an expense in profit or loss when incurred.

(c) Share-based Compensation

Employees' share option scheme ("ESOS")

The ESOS is an equity-settled share-based compensation plan that allows the directors and employees of the Company to acquire shares of MBB. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the amount due to MBB over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, MBB revises its estimates of the number of options that are expected to become exercisable over the vesting period.

Restricted share units ("RSU")

Senior management personnel of the MBB Group, including personnel of the Company, are entitled to performance-based restricted shares as consideration for services rendered. The RSU may be settled by way of issuance and transfer of new MBB shares or by cash at the absolute discretion of the ESS Committee. The total fair value of RSU granted to senior management employees is recognised as an employee cost with a corresponding increase in the reserve within MBB's equity over the vesting period and taking into account the probability that the RSU will vest.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxvi) Employee Benefits (Contd.)

(c) Share-based Compensation (Contd.)

Restricted share units ("RSU") (Contd.)

The Company's share of the RSU is recognised as an employee cost with a corresponding increase in the amount due to MBB. The fair value of RSU is measured at grant date, taking into account the market vesting conditions upon which the RSU were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to be awarded on the vesting date.

At each reporting date, MBB revises its estimates of the number of RSU that are expected to be awarded on vesting date.

(xxvii) Foreign Currencies

(a) Functional and Presentation Currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in RM, which is also the Company's functional and presentation currency.

(b) Foreign Currency Transactions

Transactions in foreign currencies are measured in the respective functional currencies of the branches of the Company and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxvii) Foreign Currencies (Contd.)

(b) Foreign Currency Transactions (Contd.)

Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the spot exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Company's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under the foreign currency translation reserve in equity.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised directly in other comprehensive income.

(c) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency of the Company's financial statements are translated into RM as follows:

- assets and liabilities of foreign operations presented are translated at the closing rate prevailing as at the reporting date;

- income and expenses are translated at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions; and

- all resulting exchange differences are taken directly to other comprehensive income through the foreign currency translation reserve.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxvii) Foreign Currencies (Contd.)

(c) Foreign Operations (Contd.)

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to the income statement (as a reclassification adjustment) when the gain or loss on disposal is recognised.

The principal exchange rate for every unit of foreign exchange currencies ruling at the reporting date used for translation of foreign operations are as follows:

	31.12.2016	31.12.2015
Singapore Dollar	3.01	3.04
Brunei Dollar	3.01	3.04

(xxviii) Income Tax

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

Deferred tax is provided for using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxviii) Income Tax (Contd.)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised as an income or an expense and included in profit or loss, except when it arises from a transaction which is recognised directly in equity/insurance contract liabilities, in which case the deferred tax is also recognised directly in other comprehensive income/insurance contract liabilities, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

2.3 Amendments to MFRS

At the beginning of the current financial year, the Company adopted the following Amendments to MFRS which are mandatory for financial periods beginning on or after 1 January 2016:

Amendments to MFRS 116 and MFRS 138 *Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to MFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
Amendments to MFRS 127 *Equity Method in Separate Financial Statements*
Amendments to MFRS 101 *Disclosure Initiatives*
Amendments to MFRS 10, MFRS 12 and MFRS 128 *Investment Entities: Applying the Consolidation Exception*
Annual Improvements to MFRSs 2012 - 2014 Cycle

The adoption of the above Amendments to MFRS did not result in any significant impact to the financial statements of the Company.

2.4 Revision in the method to determine UPR

The Company has revised the basis used in computing the UPR on its annual policies (excluding treaty, marine cargo, aviation cargo and transit), from 1/24th to time apportionment. The change improved the accuracy of the UPR and the consistency between annual and non-annual policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Revision in the method to determine UPR (Contd.)

In line with MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors, the revision in the basis of computation of UPR in relation to the Company's general insurance business has been accounted for as a change in accounting estimate and the resulting impact has been recognised prospectively in the financial statements.

The effect on the financial statements for the year ended 31 December 2016 are described below:

	RM'000
Income Statement	
Decrease in gross change in premium liabilities	63,907
Decrease in premium liabilities ceded to reinsurers	(48,940)
Increase in profit before taxation	14,967
Increase in tax expense	(3,592)
Increase in net profit for the year	11,375
Statement of financial position	
Decrease in insurance contract liabilities	63,907
Decrease in reinsurance assets	(48,940)
Increase in current tax liabilities	(3,592)
Increase in retained earnings	(11,375)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective

The following are standards, Amendments to Standards, IC Intepretations and annual improvements to standards issued by the Malaysian Accounting Standard Board ("MASB"), but not yet effective, up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards if applicable, when they become effective:

Description	**Effective for annual periods beginning on or after**
Amendment to MFRS 12 *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)*	1 January 2017
MFRS 107 *Statement of Cash Flows* - Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 *Income Taxes* - Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective (Contd.)

Description	Effective for annual periods beginning on or after
Amendment to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)*	1 January 2018
MFRS 2 *Share-based Payment - Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)*	1 January 2018
MFRS 9 *Financial Instruments* (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Applying MFRS 9 *Financial Instruments* with MFRS 4 *Insurance Contracts (Amendments to MFRS 4)*	1 January 2018
Amendment to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)*	1 January 2018
Transfer to Investment Property *(Amendments to MFRS 140)*	1 January 2018
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
MFRS 16 *Leases*	1 January 2019
MFRS 10 *Consolidated Financial Statements* (Amendments to MFRS 10) and MFRS 128 *Investment in Associates and Joint Ventures* (Amendments to MFRS 128): Sale or Contribution of Assets between an investor and its Associate or Joint venture (Amendments to MFRS128)	To be announced by MASB

The Company does not expect that the adoption of the above pronouncements will have significant financial implications in future financial statements other than below:

MFRS 107 *Disclosures Initiatives* (Amendments to MFRS 107)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (for example foreign exchange movements and fair value changes).

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. Application of the amendment will result in additional disclosures to be provided by the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective (Contd.)

MFRS 112 *Recognition of Deferred Tax for Unrealised Losses* (Amendments to MFRS 112)

The amendments clarify that deductible tax difference will arise from unrealised losses of debt instruments classified at fair value regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument.

In circumstances where tax law restricts the utilisation of tax losses such that an entity can only deduct the tax losses against income of a specified type, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments also clarify that when estimating taxable profit of future periods, an entity can assume that an asset will be recovered for more than its carrying amount if that recovery is probable and the asset is not impaired. All relevant facts and circumstances should be assessed when making this assessment.

In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with the future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The amendments should be applied retrospectively. However, on initial application of the amendment, adjustment to the opening equity of the earliest comparative period may be recognised in opening retained earnings, without allocating the change between retained earnings and other components of equity. If this relief is applied, the entity must disclose this fact. The Company does not anticipate significant impact to the financial statements upon adoption of the amendments.

MFRS 9 *Financial Instruments*

The International Accounting Standards Board ("IASB") issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective (Contd.)

MFRS 9 *Financial Instruments* (Contd.)

The Company plans to adopt the new standard on the required effective date. During 2016, the Company has performed a high level impact assessment of all three aspects of MFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company does not anticipate significant impact to the financial statements except for the effect of a higher allowance for impairment losses arising from applying the impairment requirement. The Company will perform a detailed assessment in the future to determine the extent.

The areas with expected impact from application of MFRS 9 are summarised below:

(i) Classification and measurement

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the asset. Key changes include:

- The held-to-maturity ("HTM") and available-for-sale ("AFS") asset categories will be removed;

- A new asset category measured at fair value through other comprehensive income ("FVOCI") is introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principle and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

- A new asset category for non-traded equity investments measured at FVOCI is introduced; and

- Classification of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in 'own credit risk' for financial liabilities designated and measured at FVTPL to be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective (Contd.)

MFRS 9 *Financial Instruments* (Contd.)

(i) Classification and measurement (Contd.)

The Company does not expect a significant impact to the financial statements on applying the classification and measurement requirements.

Loans and receivables are held to collect contractual cash flows and are representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortised cost under MFRS 9. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under MFRS 9.

(ii) Impairment

The MFRS 9 impairment requirements are based on an Expected Credit Loss ("ECL") model that replaces the Incurred Loss model under the current accounting standard. The Company expects to recognise either a 12-month (Stage 1) or lifetime ECL (Stage 2 and 3), depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include loans, advances and financing and debt instruments held by the Company. The ECL model also applies to contract assets under MFRS 15 Revenue from Contracts with Customers and lease receivables under MFRS 117 Leases. Appropriate impairment methodology will be adopted for calculating allowances for impairment losses.

The Company has established a project team with assistance from consultants to plan and manage the implementation of MFRS 9 and is in the process of assessing the financial implications for adopting the new standard. The implementation project is expected to run for 2 years. During the financial year ended 31 December 2016, the Company has completed Phase 1 on the impact assessment and solution development. The Company has also embarked on Phase 2, Build, test and deploy of the implementation project.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective (Contd.)

MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 was issued in 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under MFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company expects to apply MFRS 15 fully retrospective. Given that insurance contracts are scoped out of MFRS 15, the Company expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Company does not expect the impact to be significant.

MFRS 16 *Leases*

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

(i) Lessee

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Subsequently, lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

(ii) Lessor

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective (Contd.)

MFRS 16 *Leases (Contd.)*

The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Company plans to assess the potential effect of MFRS 16 on its financial statement in the near future.

MFRS 10 *Consolidated Financial Statements* (Amendments to MFRS 10) and MFRS 128 *Investment in Associates and Joint Ventures* (Amendments to MFRS 128): Sale or Contribution of Assets between an investor and its Associate or Joint venture (Amendments to MFRS128)

The amendments address the conflict between MFRS 10 and MFRS 128 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments require the full gain to be recognised when the assets transferred to associate or joint venture in which it meets the definition of a business as defined in MFRS 3 *Business Combinations.* Any gain or loss on assets transferred to associate or joint venture that do not meet the definition of a business would be recognised only to the extent of the unrelated investors' interest in the associate or joint venture. The amendments are applied prospectively effective for periods beginning on or after 1 January 2016, with early application permitted.

On 31 December 2015, MASB announced to defer the effective date of the amendments, except for the amendments which clarify how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests, where early application is still permitted. The deferment is in line with the IASB's recent decision which removed the requirement to apply Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128) by 2016. The IASB's reason for making the decision to defer the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The Company does not anticipate significant impact to the financial statements upon adoption of the amendments.

Applying MFRS 9 *Financial Instruments* with MFRS 4 *Insurance Contracts (Amendments to MFRS 4)*

In December 2016, the MASB issued amendments to MFRS 4 to address issues arising from the different effective dates of MFRS 9 and the upcoming new insurance contracts standard (IFRS 17) to be issued by the International Accounting Standards Board.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.5 Standards and Annual Improvements to Standards Issued but Not Yet Effective (Contd.)

Applying MFRS 9 *Financial Instruments* with MFRS 4 *Insurance Contracts (Amendments to MFRS 4) (Contd.)*

The amendments introduce two alternative options for entities issuing contracts within the scope of MFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest whilst the overlay approach allows an entity applying MFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied MFRS 139 to these designated financial assets.

The Company have opted not to utilise the exemptions permitted under this Amendment and will fully adopt MFRS 9 when it becomes effective on 1 January 2018.

2.6 Companies Act 2016

The companies Act 2016 ("New Act") was enacted to replace the Companies Act, 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and sharehoders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Company upon the commencement of the New Act on 31 January 2017 are:

- the removal of the authorised share capital;
- the ordinary shares of the Company will cease to have par or nominal value; and
- the Company's share premium will become part of the share capital.

The adoption of the New Act is not expected to have any financial impact on the Company for the current financial year ended 31 December 2016 as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual report and financial statements of the Company in the next financial year ended 31 December 2017.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

3. PROPERTY, PLANT AND EQUIPMENT

2016	Properties # RM'000	Furniture, fittings, equipment and renovations RM'000	Computers and peripherals RM'000	Electrical and security equipments RM'000	Motor vehicles RM'000	Work-in progress RM'000	Total RM'000
Cost							
At 1 January 2016	118,626	52,004	9,800	36,080	378	8,129	225,017
Additions	-	2,098	2,797	1,050	-	3,726	9,671
Disposal	-	(351)	(83)	-	-	-	(434)
Reclassification	-	586	-	2,638	-	(3,224)	-
Translation differences	-	7	2	-	-	-	9
At 31 December 2016	118,626	54,344	12,516	39,768	378	8,631	234,263
Accumulated Depreciation and Impairment Losses							
At 1 January 2016	38,300	43,507	6,880	23,284	149	-	112,120
Depreciation charge for the year	2,185	3,919	1,514	1,922	70	-	9,610
Disposal	-	(338)	(68)	-	-	-	(406)
Translation differences	-	(4)	1	-	-	-	(3)
At 31 December 2016	40,485	47,084	8,327	25,206	219	-	121,321
Analysed as:							
- Accumulated depreciation	38,474	47,084	8,327	25,206	219	-	119,310
- Accumulated allowance for impairment losses	2,011	-	-	-	-	-	2,011
	40,485	47,084	8,327	25,206	219	-	121,321
Net Book Value at 31 December 2016	78,141	7,260	4,189	14,562	159	8,631	112,942

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

2015	Properties # RM'000	Furniture, fittings, equipment and renovations RM'000	Computers and peripherals RM'000	Electrical and security equipments RM'000	Motor vehicles RM'000	Work-in progress RM'000	Total RM'000
Cost							
At 1 January 2015	118,626	50,654	8,394	35,067	419	1,325	214,485
Additions	-	1,303	1,387	897	282	6,923	10,792
Write-off	-	-	(15)	-	(323)	-	(338)
Reclassified from intangible assets (Note 6)	-	-	22	-	-	-	22
Reclassification	-	3	-	116	-	(119)	-
Translation differences	-	44	12	-	-	-	56
At 31 December 2015	118,626	52,004	9,800	36,080	378	8,129	225,017
Accumulated Depreciation and Impairment Losses							
At 1 January 2015	36,115	38,737	5,188	21,576	419	-	102,035
Depreciation charge for the year	2,185	4,727	1,689	1,708	53	-	10,362
Reclassified from intangible assets (Note 6)	-	-	9	-	-	-	9
Write-off	-	-	(15)	-	(323)	-	(338)
Translation differences	-	43	9	-	-	-	52
At 31 December 2015	38,300	43,507	6,880	23,284	149	-	112,120
Analysed as:							
- Accumulated depreciation	36,289	43,507	6,880	23,284	149	-	110,109
- Accumulated allowance for impairment losses	2,011	-	-	-	-	-	2,011
	38,300	43,507	6,880	23,284	149	-	112,120
Net Book Value at 31 December 2015	80,326	8,497	2,920	12,796	229	8,129	112,897

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Properties consist of:

	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
2016				
Cost				
At 1 January/31 December 2016	3,620	8,010	106,996	118,626
Accumulated Depreciation and Impairment Losses				
At 1 January 2016	746	4,841	32,713	38,300
Depreciation charge for the year	-	45	2,140	2,185
At 31 December 2016	746	4,886	34,853	40,485
Analysed as:				
- Accumulated depreciation	-	3,621	34,853	38,474
- Accumulated allowance for impairment losses	746	1,265	-	2,011
	746	4,886	34,853	40,485
Net Book Value at 31 December 2016	2,874	3,124	72,143	78,141

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Properties consist of:

	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
2015				
Cost				
At 1 January/31 December 2015	3,620	8,010	106,996	118,626
Accumulated Depreciation and Impairment Losses				
At 1 January 2015	746	4,796	30,573	36,115
Depreciation charge for the year	-	45	2,140	2,185
At 31 December 2015	746	4,841	32,713	38,300
Analysed as:				
- Accumulated depreciation	-	3,576	32,713	36,289
- Accumulated allowance for impairment losses	746	1,265	-	2,011
	746	4,841	32,713	38,300
Net Book Value at 31 December 2015	2,874	3,169	74,283	80,326

4. INVESTMENT PROPERTIES

	Freehold land and buildings	Leasehold land and buildings	Investment property under construction ("IPUC")	Total
	<------- At valuation	-------->	At cost	
	RM'000	RM'000	RM'000	RM'000
2016				
At 1 January 2016	447,864	220,380	45,657	713,901
Addition	-	-	31,034	31,034
Fair value adjustment	7,050	1,900	-	8,950
At 31 December 2016	454,914	222,280	76,691	753,885
2015				
At 1 January 2015	412,864	153,520	20,545	586,929
Addition	-	-	25,112	25,112
Fair value adjustment	35,000	66,860	-	101,860
At 31 December 2015	447,864	220,380	45,657	713,901

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

Investment properties are stated at fair value in accordance with the policies as described in Note 2.2(ii) which has been determined based on valuations that reflect market conditions at the end of reporting period.

The IPUC is stated at cost less impairment as the fair value is not reliably determinable.

5. PREPAID LAND LEASE PAYMENTS

	2016 RM'000	2015 RM'000
Cost		
At 1 January/31 December	24,018	24,018
Accumulated amortisation and impairment losses		
At 1 January	4,751	4,447
Amortisation charge for the year	303	304
At 31 December	5,054	4,751
Analysed as:		
- Accumulated amortisation	4,877	4,574
- Accumulated allowance for impairment losses	177	177
	5,054	4,751
Net book value at 31 December	18,964	19,267

6. INTANGIBLE ASSETS

	Computer Software RM'000	Software Development Costs RM'000	Total RM'000
2016			
Cost			
At 1 January 2016	87,041	1,632	88,673
Additions	16,720	3,829	20,549
Reclassification	267	(267)	-
At 31 December 2016	104,028	5,194	109,222
Accumulated Amortisation			
At 1 January 2016	41,002	-	41,002
Amortisation charge for the year	6,431	-	6,431
At 31 December 2016	47,433	-	47,433
Net book value at 31 December	56,595	5,194	61,789

6. INTANGIBLE ASSETS (CONTD.)

	Computer Software RM'000	Software Development Costs RM'000	Total RM'000
2015			
Cost			
At 1 January 2015	66,421	-	66,421
Additions	20,642	1,632	22,274
Reclassified from property, plant and equipment (Note 3)	(22)	-	(22)
At 31 December 2015	87,041	1,632	88,673
Accumulated Amortisation			
At 1 January 2015	36,372	-	36,372
Amortisation charge for the year	4,639	-	4,639
Reclassified from property, plant and equipment (Note 3)	(9)	-	(9)
At 31 December 2015	41,002	-	41,002
Net book value at 31 December 2015	46,039	1,632	47,671

7. INVESTMENT IN SUBSIDIARY

	2016	2015
Unquoted shares, at cost	RM1	RM1
No. of shares	1	1

7. INVESTMENT IN SUBSIDIARY (CONTD.)

Name of company	Principal activity	Effective interest (%) 2016	2015
Double Care Sdn Bhd ("DCSB") (Incorporated in Malaysia)	Dormant (in member's voluntary winding-up)	100.00	100.00

On 26 October 2009, the Company passed a Special Resolution to commence winding up of DCSB. A tax clearance letter has been obtained from Inland Revenue Board of Malaysia on 23 April 2012. As soon as the affairs of DCSB are totally wound-up, DCSB would call for a final meeting to complete the member's voluntary winding-up process.

8. INVESTMENT IN ASSOCIATE

	2016 RM'000	2015 RM'000
Unquoted shares, at cost	152	152

Name of company	Principal activity	Effective interest (%) 2016	2015
Asian Forum Inc. (Incorporated in Federal Territory of Labuan, Malaysia)	Offshore captive insurance	33.33	33.33

The financial year end of the associate is 31 December. The latest available financial information of the associate for the financial period ended 30 September 2016 were used for the purpose of the above disclosures.

As permitted under MFRS128 Investments in Associates and Joint Ventures, the investment in associate has not been accounted for by applying the equity method as the immediate holding company, Maybank Ageas Holdings Berhad ("MAHB") produces consolidated financial statements available for public use that comply with MFRSs.

9. INVESTMENTS

	2016 RM'000	2015 RM'000
Malaysian government papers	482,908	454,907
Debt securities	7,133,256	6,201,112
Equity securities	1,600,035	1,905,084
Unit and property trust funds*	69,844	63,627
Redeemable loan stock	-	7
Structured products (Note 10)	384,394	1,047,258
Negotiable certificates of deposit ("NCD")	144,885	213,473
Deposits with financial institutions	1,447,599	1,809,233
	11,262,921	11,694,701

*Included in investments in unit trust funds are investments amounting to RM50,039,038 (2015: RM50,056,239) million relating to unit trust funds managed by entities within the MBB Group.

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

	2016 RM'000	2015 RM'000
Available-for-sale ("AFS")	2,272,705	2,494,419
Fair value through profit and loss ("FVTPL")		
- designated upon initial recognition	6,508,602	5,795,087
- held for trading ("HFT")	1,034,015	1,595,962
Loans and receivables ("LAR")	1,447,599	1,809,233
	11,262,921	11,694,701

The following investments mature after 12 months:

	2016 RM'000	2015 RM'000
AFS	1,262,420	1,152,886
FVTPL		
- designated upon initial recognition	6,163,060	5,535,261
- HFT	336,449	268,545
	7,761,929	6,956,692

9. INVESTMENTS (CONTD.)

	2016 RM'000	2015 RM'000
(a) AFS		
Fair value		
Malaysian government papers	185,339	239,014
Debt securities:		
Quoted outside Malaysia		-
Unquoted debt securities in Malaysia	1,115,053	975,879
Equity securities:		
Quoted equity securities in Malaysia	863,890	1,120,686
in Malaysia	50,039	50,056
Unquoted outside Malaysia	-	-
Irredeemable loan stock		
Structured products (Note 10)	-	47,916
	2,220,454	2,442,168
Cost		
Unquoted equity securities in Malaysia		
Cost	55,032	55,032
Less: Allowance for impairment losses	(2,781)	(2,781)
	52,251	52,251
Total AFS financial assets	2,272,705	2,494,419

	2016 RM'000	2015 RM'000
(b) FVTPL		
(i) Designated upon initial recognition		
Fair value		
Malaysian government papers	238,233	130,330
Debt securities:		
Unquoted in Malaysia	5,550,585	4,854,392
Unquoted outside Malaysia	192,141	183,009
Structured products (Note 10)	382,758	413,883
Negotiable certificates of deposit	144,885	213,473
	6,508,602	5,795,087

9. INVESTMENTS (CONTD.)

	2016 RM'000	2015 RM'000
(b) FVTPL (Contd.)		
(ii) HFT		
Fair value		
Malaysian government papers	59,336	85,563
Unquoted debt securities in Malaysia	275,477	187,832
Quoted equity securities in Malaysia	677,761	723,530
Unit and property trust funds:		
Redeemable loan stock	-	7
Structured products (Note 10)	1,636	585,459
	1,034,015	1,595,962
Total FVTPL financial assets	7,542,617	7,391,049

	2016 RM'000	2015 RM'000
(c) LAR		
Fixed and call deposits with:		
Licensed banks	1,194,315	1,464,162
Other financial institutions	253,284	345,071
Total LAR financial assets	1,447,599	1,809,233
	11,262,921	11,694,701

The carrying amounts of LAR are reasonable approximations of fair values due to the short term maturity of these financial assets.

Included in LAR are assets amounting to RM35,000,000 (2015: RM35,000,000) which have been pledged to obtain a banking facility from MBB.

Fair Value of Financial Investments

An analysis of the different fair value measurement bases used in the determination of the fair values of investments are further disclosed in Note 47(a) to the financial statements.

10. STRUCTURED PRODUCTS

Structured products of the Company are classified as either FVTPL or AFS. For structured products classified as AFS, the derivative embedded in the product is bifurcated from the host contract in line with the requirements of MFRS 139 *Financial Instruments: Recognition and Measurement*. Bifurcated derivatives are classified as FVTPL and changes in their fair value are recognised in profit or loss.

The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The carrying amount of structured products is presented as follows:

	<------------ 2016 ------------>		<------------ 2015 ------------>	
	Principal/ Notional* Amount RM'000	**Net Carrying Amount RM'000**	**Principal/ Notional Amount RM'000**	**Net Carrying Amount RM'000**
Financial assets at FVTPL				
Structured deposits	400,000	382,758	626,515	599,881
Credit-linked notes	-	-	407,956	400,720
Index linked notes	33,663	1,636	33,663	2,414
Bifurcated derivative relating to structured deposits of Shareholder's/General Fund *		-		(3,673)
		384,394		999,342
AFS financial assets				
Structured deposits *:				
Host contract	-	-	45,000	47,916
		-		47,916
Total structured products		384,394		1,047,258

* The notional amount of structured deposits categorised as AFS represents the notional amount of the product as a whole and accordingly, segregation between the host contract and the embedded derivative is not appropriate.

The fair value of structured products of the Company is derived based on valuation techniques from market observable inputs. They are revalued at the reporting date using such values as provided by the respective counterparties.

11. FINANCING RECEIVABLES

	2016 RM'000	2015 RM'000
Policy/automatic premium loans	213,888	220,456
Staff loans - secured	33,254	34,639
Non staff loans	2,605	2,875
	249,747	257,970
Allowance for impairment losses (Note 45 (i))	(1,481)	(2,252)
	248,266	255,718
Receivable after 12 months	29,060	30,745

The carrying amount approximates fair value as these loans are issued at interest rates that are comparable to instruments in the market with similar characteristics and risk profiles and, accordingly, the impact of discounting thereon is not material.

The weighted average effective interest rates during the financial year were as follows:

	2016	2015
Policy/automatic premium loans	8.00%	8.00%
Staff loans	3.99%	3.99%
Non-staff loans	6.52%	6.99%

12. REINSURANCE ASSETS

	2016 RM'000	2015 RM'000
Reinsurers' share of:		
- Life insurance contract liabilities (Note 19)	25,767	22,139
- General insurance contract liabilities (Note 19)	3,289,906	3,253,448
	3,315,673	3,275,587
Allowance for impairment losses (Note 45 (i))	(529)	(3,423)
	3,315,144	3,272,164

13. INSURANCE RECEIVABLES

	2016 RM'000	2015 RM'000
Due premiums including agents/brokers and co-insurers balances	238,691	208,142
Due from reinsurers and cedants	36,080	135,797
	274,771	343,939
Allowance for impairment losses (Note 45 (i))	(9,917)	(19,324)
	264,854	324,615

13. INSURANCE RECEIVABLES (CONTD.)

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

Included in due premiums including agents/brokers and co-insurers balances are balances due from related parties amounting to RM14,845,358 (2015: RM9,704,211). The amounts receivable are subject to settlement terms stipulated in the insurance contracts.

14. OTHER RECEIVABLES

	2016 RM'000	2015 RM'000
Amount due from stockbrokers	2,256	47,134
Share of net assets in Motor Insurance Pool ("MMIP")	61,669	72,857
Amount due from Fund Manager	1,924	-
Sundry receivables, deposits and prepayments	12,453	12,823
Allowance for impairment losses (Note 45 (i))	(157)	(158)
	12,296	12,665
Income due and accrued	127,645	120,814
Allowance for impairment losses (Note 45 (i))	(210)	(245)
	127,435	120,569
Amount due from related companies* (Note 41 (b)):		
- Ultimate holding company	612	427
- Other related companies	6,833	6,776
	7,445	7,203
	213,025	260,428

* Amounts due from related companies are non-trade in nature, unsecured, interest free and are repayable on demand.

The carrying amounts (other than prepayments) are reasonable approximations of fair values due to the relatively short-term maturity of these balances.

Included in share of net assets in MMIP are cash call amounting to RM25,359,404 (2015: RM34,359,401).

Included in sundry receivables, deposits and prepayments and income due and accrued are balances due from related parties amounting to RM2,081,879 and RM3,395,302 (2015: RM97,191 and RM6,422,659) respectively.

15. DERIVATIVES

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

	2016			2015		
	Principal/ Notional Amount RM'000	Asset RM'000 (A)	Liability RM'000 (B)	Principal/ Notional Amount RM'000	Asset RM'000 (A)	Liability RM'000 (B)
Hedging derivatives:						
Forward foreign exchange contract	-	-	-	62,607	-	8,835
Cross currency swap	138,251	-	56,603	138,251	-	50,448
		-	56,603		-	59,283
Non-hedging derivatives:						
Non-current						
Equity options	-	-	-	366,077	2,610	-
		-	-		2,610	-
Total derivatives		-	56,603		2,610	59,283

The fair value of derivatives is derived based on valuation techniques from market observable inputs and are revalued at the reporting date based on valuations provided by the respective counterparties. An analysis of the fair value measurement bases used in the determination of the fair values of derivatives are further disclosed in Note 47(a) to the financial statements.

15. DERIVATIVES (CONTD.)

For hedging derivatives:

Forwards are customised contracts transacted with a specific counterparty who agrees to buy or sell a specified asset at a pre-agreed rate at a specified future date. The contracts are settled at gross at a specified future date and are considered to bear a higher liquidity risk than futures contracts which are settled on a net basis. It also bears market risks related to the underlying investments. The Company enters into forward foreign exchange contracts for the purpose of hedging part of its investment portfolio in USD denominated mutual funds.

Swaps are contractual agreements between two parties to exchange streams of payments over time, based on specified notional amounts, in relation to movements in a specified underlying index such as interest rate, foreign currency rate or equity indices. The Company uses swap contracts to hedge the principal amounts invested in foreign debt securities denominated in USD which will be settled at a specified contract rate on the maturity date of the contract.

For non-hedging derivatives:

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Company purchases options that provide the Company with the opportunity to purchase (call options) the underlying asset at an agreed-upon value on the expiration of the options. The Company is exposed to credit risk on purchased options only to the extent of their carrying amounts, which is their fair value. The Company uses options in the product structuring for investment linked products as a strategy to enhance the returns of the products.

16. DISCONTINUED OPERATION AND ASSETS CLASSIFIED AS HELD FOR SALE

On 1 April 2015, the Singapore Branch's general insurance business was transferred to its related party, Etiqa Insurance Pte. Ltd. ("EIPL") under the Scheme of Transfer ("SOT") as approved by the High Court of Singapore on 27 January 2015, at a purchase consideration of RM135,478,316.

On 27 November 2015, the Company surrendered the licence relating to its Singapore branch.

On 18 December 2015, the Company signed an Option to Purchase Agreement for its Singapore property and a deposit was received from the purchaser. The sale of the Singapore Property has been completed on 29 February 2016 with sales proceeds amounted to RM28,199,497 and realised gain of RM27,411,998.

Statement of financial position disclosure

The asset classified as held for sale as at 31 December 2015 is as follow:

	2015 RM'000
Asset:	
Property, plant and equipment	787

Income statement disclosures

The results of the general insurance business of the Singapore Branch prior to SOT for the year ended 31 December 2015 are as follows:

	Note	2015 RM'000
Gross earned premiums		
Gross premium		37,730
Gross change in premium liabilities		(6,368)
Gross earned premiums	25(a)	31,362
Earned premiums ceded to reinsurers		
Premiums ceded to reinsurers		(9,206)
Change in premiums ceded to reinsurers		976
Earned premiums ceded to reinsurers	25(b)	(8,230)
Net earned premiums		23,132
Fee and commission income	26	2,353
Investment income	27	1,598
Realised gains/(losses)	28	93
Other operating income/(expenses), net	30	184
Other revenue		4,228

16. DISCONTINUED OPERATION AND ASSETS CLASSIFIED AS HELD FOR SALE (CONTD.)

Income statement disclosures (contd.)

	Note	2015 RM'000
Gross benefits and claims paid	31(a)	(11,078)
Claims ceded to reinsurers	31(b)	1,224
Gross change in contract liabilities	31(c)	11,511
Change in contract liabilities ceded to reinsurers	31(d)	(16,507)
Net benefits and claims		(14,850)
Management expenses	32	(5,704)
Fee and commission expenses	34	(5,884)
Other expenses		(11,588)
Profit before taxation		922
Taxation	35	83
Net profit for the year		1,005

Other comprehensive income disclosures

Items that may be subsequently reclassified to income statement	
Change in value of AFS financial assets, net	
- Fair value changes	671
- Transfer to profit or loss upon disposal	(93)
Tax effect relating to AFS financial assets	-
	578
Currency translation differences	5,871
Other comprehensive income from disposal group for the year, net of tax	6,449
Total comprehensive income from disposal group for the year, net of tax	7,454

Statement of cash flows disclosures

The cash flows attributable to the general insurance business of the Singapore Branch as at 31 December 2015 are as follows:

	2015 RM'000
Cash flows from:	
Operating activities	23,038
Investing activities	(36,489)
Net cash outflows	(13,451)

17. SHARE CAPITAL

	<---- Number of shares ---->		<----------- Amount ----------->	
	2016 Units '000	2015 Units '000	2016 RM'000	2015 RM'000
Authorised:				
Ordinary shares of RM1.00 each				
At 1 January and 31 December	500,000	500,000	500,000	500,000
Issued and Paid-up:				
Ordinary shares of RM1.00 each				
At 1 January and 31 December	152,151	152,151	152,151	152,151

18. RESERVES

	Note	2016 RM'000	2015 RM'000
Non-distributable:			
Share premium	(i)	17,728	17,728
AFS reserve	(ii)	22,225	19,705
Other reserves:			
Revaluation reserve	(iii)	11,647	11,647
Currency translation reserve	(iv)	14,843	13,565
		26,490	25,212
Retained earnings:			
Distributable retained profits	(v)	911,214	934,141
Non-distributable non-par fund surplus	(vi)	1,719,083	1,546,328
		2,630,297	2,480,469
Total reserves		2,696,740	2,543,114

18. RESERVES (CONTD.)

(i) The share premium reserve relates to amounts paid by shareholders for shares in excess of their par value.

(ii) The AFS reserve arose from the changes in the fair value of the investment assets of the shareholder and non-Par fund.

(iii) The revaluation reserve represents the difference between the carrying amount of properties previously classified as self occupied and transferred to investment properties upon the end of owner occupation and its fair value at the date of change in use.

(iv) The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the presentation currency of the Company.

(v) The entire distributable retained profits may be distributed to the shareholder under the single-tier system.

(vi) Non-distributable non-par surplus represent the unallocated surplus from the non-Par fund. The unallocated surplus of non-Par fund is only available for distribution to the shareholder upon approval by the Appointed Actuary. Upon such approval, the distribution is presented as a transfer from non-distributable non-par surplus to distributable retained profits.

19. INSURANCE CONTRACT LIABILITIES

	2016			2015		
	Gross RM'000	Reinsurance RM'000 (Note 12)	Net RM'000	Gross RM'000	Reinsurance RM'000 (Note 12)	Net RM'000
Life insurance (Note A)	7,915,788	(25,767)	7,890,021	8,440,874	(22,139)	8,418,735
General insurance (Note B)	3,864,680	(3,289,906)	574,774	3,939,646	(3,253,448)	686,198
	11,780,468	(3,315,673)	8,464,795	12,380,520	(3,275,587)	9,104,933

(A) Life Insurance

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

(i) Life insurance contract liabilities

	2016			2015		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Claims liabilities	64,299	(4,445)	59,854	63,286	(2,639)	60,647
Actuarial liabilities	5,904,770	(21,322)	5,883,448	5,926,062	(19,500)	5,906,562
Participating fund unallocated surplus	737,219	-	737,219	653,059	-	653,059
Participating fund AFS reserve	45,546	-	45,546	74,343	-	74,343
NAV attributable to unitholders	1,163,954	-	1,163,954	1,724,124	-	1,724,124
	7,915,788	(25,767)	7,890,021	8,440,874	(22,139)	8,418,735

19. INSURANCE CONTRACT LIABILITIES (CONTD.)

(A) Life Insurance (Contd.)

(ii) Movements of life insurance contract liabilities

2016	Claims liabilities RM'000	Actuarial liabilities RM'000	Participating fund unallocated surplus RM'000	Participating fund AFS reserve RM'000	NAV attributable to unitholders RM'000	Gross RM'000	Reinsurance RM'000	Total liabilities RM'000
As at 1 January 2016	63,286	5,926,062	653,059	74,343	1,724,124	8,440,874	(22,139)	8,418,735
Net earned premiums	-		414,713	-	248,714	663,427	-	663,427
Other revenue	-	-	289,256	-	16,788	306,044	-	306,044
Net benefits and claims	1,013	-	(469,523)	-	(824,465)	(1,292,975)	(1,805)	(1,294,780)
Other expenses	-	-	(61,055)	-	(46)	(61,101)	-	(61,101)
Change in reserve:								
- Discounting	-	12,912	(22,213)	-	-	(9,301)	240	(9,061)
- Assumptions	-	2,469	(5,029)	-	-	(2,560)	(144)	(2,704)
- Policy movements	-	(36,673)	(43,328)	-	-	(80,001)	(1,919)	(81,920)
Changes in AFS reserve	-	-	-	(30,875)	-	(30,875)	-	(30,875)
Taxation	-	-	(19,394)	2,078	(1,161)	(18,477)	-	(18,477)
Transfer from shareholders' fund	-	-	733	-	-	733	-	733
At 31 December 2016	64,299	5,904,770	737,219	45,546	1,163,954	7,915,788	(25,767)	7,890,021

19. INSURANCE CONTRACT LIABILITIES (CONTD.)

(A) Life Insurance (Contd.)

(ii) Movements of life insurance contract liabilities (Contd.)

	Claims liabilities RM'000	Actuarial liabilities RM'000	Participating fund unallocated surplus RM'000	Participating fund AFS reserve RM'000	NAV attributable to unitholders RM'000	Gross RM'000	Reinsurance RM'000	Total liabilities RM'000
2015								
As at 1 January 2015	49,932	6,705,495	797,736	61,633	1,864,324	9,479,120	(25,866)	9,453,254
Net earned premiums	-	-	350,023	-	255,363	605,386	-	605,386
Other revenue	-	-	198,994	-	57,974	256,968	-	256,968
Net benefits and claims	13,354	-	(782,049)	-	(450,460)	(1,219,155)	690	(1,218,465)
Other expenses	-	-	(53,377)	-	(20)	(53,397)	-	(53,397)
Change in reserve:								
- Discounting	-	(26,266)	(4,322)	-	-	(30,588)	(41)	(30,629)
- Assumptions	-	215,348	(188,374)	-	-	26,974	(16)	26,958
- Policy movements	-	(968,515)	354,784	-	-	(613,731)	3,094	(610,637)
Changes in AFS reserve	-	-	-	13,330	-	13,330	-	13,330
Taxation	-	-	(9,814)	(620)	(3,057)	(13,491)	-	(13,491)
Transfer to shareholders' fund	-	-	(10,542)	-	-	(10,542)	-	(10,542)
At 31 December 2015	63,286	5,926,062	653,059	74,343	1,724,124	8,440,874	(22,139)	8,418,735

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

19. INSURANCE CONTRACT LIABILITIES (CONTD.)

(B) General insurance

	<---- 2016		---->	<---- 2015		---->
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Claims liabilities (i)	3,437,773	(3,049,160)	388,613	3,351,905	(2,896,268)	455,637
Premium liabilities (ii)	426,907	(240,746)	186,161	587,741	(357,180)	230,561
	3,864,680	(3,289,906)	574,774	3,939,646	(3,253,448)	686,198

(i) Claims liabilities

	<---- 2016		---->	<---- 2015		---->
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
As at 1 January 2016/2015	3,351,905	(2,896,268)	455,637	4,097,449	(3,692,775)	404,674
Claims incurred in the current accident year	497,459	(252,395)	245,064	471,552	(216,332)	255,220
Other movements in claims incurred in prior accident years	623,801	(641,130)	(17,329)	85,419	(67,692)	17,727
Claims paid during the year (Note 31)	(889,062)	636,987	(252,075)	(686,003)	453,972	(232,031)
Movements in Unallocated Loss Adjustment Expenses ("ULAE")	(674)	-	(674)	1,857	-	1,857
Movements in PRAD	(145,656)	103,646	(42,010)	(618,369)	626,559	8,190
At 31 December 2016/2015	3,437,773	(3,049,160)	388,613	3,351,905	(2,896,268)	455,637

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

19. INSURANCE CONTRACT LIABILITIES (CONTD.)

(B) General insurance (Contd.)

(ii) Premium liabilities

	<---- 2016		---->	<---- 2015		---->
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
As at 1 January 2016/2015	587,741	(357,180)	230,561	649,396	(379,256)	270,140
Premiums written in the year (Note 25)	1,328,432	(898,708)	429,724	1,410,477	(927,664)	482,813
Premiums earned during the year (Note 25)	(1,489,266)	1,015,142	(474,124)	(1,472,132)	949,740	(522,392)
At 31 December 2016/2015	426,907	(240,746)	186,161	587,741	(357,180)	230,561

20. SUBORDINATED OBLIGATION

	2016 RM'000	2015 RM'000
RM500 million Tier 2 Capital Subordinated Bond	500,000	500,000
Interest payable	10,120	10,127

Issue date	:	5 July 2013
Tenure	:	10 years from issue date on a 10 non-callable 5 basis (due in 2023)
Interest Payable	:	4.13% per annum payable semi-annually in arrears in January and July each year.
Optional Redemption		The Company may, subject to the prior consent of BNM, redeem the bond, in whole but not in part, on 5 July 2018 (first call date) and on each semi-annual interest payment date thereafter at the principal amount together with accrued but unpaid coupon.

The fair value of the subordinated obligations is RM498,690,000 (2015: RM497,385,000), and is determined by reference to indicative ask-price obtained from Bondweb provided by BPAM. The fair values of subordinated obligations are categorised under Level 2 of their fair value hierarchy as the valuations were mainly based on market observable inputs.

21. DEFERRED TAX LIABILITIES, NET

	2016 RM'000	2015 RM'000
At 1 January 2016/2015	(516,255)	(464,802)
Recognised in:		
Income statement (Note 35)	(71,476)	(43,717)
- Taxation borne by policyholders	(6,249)	4,903
- Tax expense	(65,227)	(48,620)
Other comprehensive income (Note 35)	(480)	(7,160)
Insurance contract liabilities (Note 19)	2,078	(620)
Translation differences	(4)	44
At 31 December 2016/2015	(586,137)	(516,255)

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 income taxes relate to the same fiscal authority. The deferred tax disclosed in the statement of financial position is presented on a net basis after offsetting as follows:

	2016 RM'000	2015 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	8,122	21,380
Deferred tax liabilities	(594,259)	(537,635)
	(586,137)	(516,255)

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

21. DEFERRED TAXATION (CONTD.)

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

Deferred Tax Assets

	Impairment on receivables RM'000	Amortisation of premiums on investments RM'000	General insurance liabilities RM'000	Impairment on investments RM'000	Others RM'000	Total RM'000
2016						
At 1 January 2016	5,957	1,129	413	13,870	11	21,380
Recognised in:						
Income statement	(3,620)	1,163	(414)	(10,375)	(9)	(13,255)
- Taxation borne by policyholders	4	1,952	-	(4,521)	-	(2,565)
- Tax expense	(3,624)	(789)	(414)	(5,854)	(9)	(10,690)
Translation differences	(1)	-	-	-	(2)	(3)
At 31 December 2016	2,336	2,292	(1)	3,495	-	8,122
2015						
At 1 January 2015	5,751	-	588	7,480	549	14,368
Recognised in:						
Income statement	218	1,129	(175)	6,390	(607)	6,955
- Taxation borne by policyholders	(43)	(646)	-	2,444	-	1,755
- Tax expense	261	1,775	(175)	3,946	(607)	5,200
Translation differences	(12)	-	-	-	69	57
At 31 December 2015	5,957	1,129	413	13,870	11	21,380

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

21. DEFERRED TAXATION (CONTD.)

Deferred Tax Liabilities

	Accelerated capital allowances RM'000	Accretion of discounts on investments RM'000	Fair value adjustment RM'000	AFS reserves RM'000	Non-Participating fund unallocated surplus RM'000	Unrealised currency exchange RM'000	Unit linked RM'000	Total RM'000
2016								
At 1 January 2016	(4,410)	-	(29,509)	(11,977)	(484,158)	(2,634)	(4,947)	(537,635)
Recognised in:								
Income statement	(1,307)	-	(6,228)	(2)	(52,078)	(1,590)	2,984	(58,221)
- Taxation borne by policyholders	(186)	-	(5,126)	-	-	(1,356)	2,984	(3,684)
- Tax expense	(1,121)	-	(1,102)	(2)	(52,078)	(234)	-	(54,537)
Other comprehensive income	-	-	-	(480)	-	-	-	(480)
Insurance contract liabilities	-	-	-	2,078	-	-	-	2,078
Translation differences	(1)	-	-	-	-	-	-	(1)
At 31 December 2016	(5,718)	-	(35,737)	(10,381)	(536,236)	(4,224)	(1,963)	(594,259)
2015								
At 1 January 2015	(683)	(1,792)	(26,568)	(4,197)	(440,815)	-	(5,115)	(479,170)
Recognised in:								
Income statement	(3,714)	1,792	(2,941)	-	(43,343)	(2,634)	168	(50,672)
- Taxation borne by policyholders	(741)	(99)	6,672	-	-	(2,852)	168	3,148
- Tax expense	(2,973)	1,891	(9,613)	-	(43,343)	218	-	(53,820)
Other comprehensive income	-	-	-	(7,160)	-	-	-	(7,160)
Insurance contract liabilities	-	-	-	(620)	-	-	-	(620)
Translation differences	(13)	-	-	-	-	-	-	(13)
At 31 December 2015	(4,410)	-	(29,509)	(11,977)	(484,158)	(2,634)	(4,947)	(537,635)

22. INSURANCE PAYABLES

	2016 RM'000	2015 RM'000
Due to agents and intermediaries	65,544	17,169
Due to reinsurers and cedants	234,150	338,929
	299,694	356,098

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

Included in due to agents and intermediaries are balances due to related parties amounting to RM145,665 (2015: RM87,159).

23. OTHER PAYABLES

	2016 RM'000	2015 RM'000
Premium deposits	54,432	57,255
Dividend payable to policyholders	79,626	73,316
Amount due to related companies* (Note 41 (b)):		
- Holding company	1,606	1,146
- Other related companies	23	2
Amount due to subsidiary* (Note 41 (b))	1,640	1,644
Amount due to stockbrokers	5,842	5,245
Claims pending disbursement	11,565	12,037
Sundry payables and accrued liabilities	178,562	141,387
	333,296	292,032

*Amounts due to related companies and subsidiary are non-trade in nature, unsecured, interest free and are repayable on demand.

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

Included in sundry payables and accrued liabilities are balances due to related parties amounting to RM2,372,988 (2015: RM2,532,888).

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

24. OPERATING REVENUE

	2016	<---------- 2015	---------->	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Gross premiums (Note 25)	2,403,167	2,440,840	37,730	2,478,570
Investment income (Note 27)	530,231	541,925	1,598	543,523
	2,933,398	2,982,765	39,328	3,022,093

25. NET EARNED PREMIUMS

	2016	<---------- 2015	---------->	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
(a) Gross Earned Premiums				
Life insurance contracts	1,074,735	1,030,363	-	1,030,363
General insurance contracts	1,328,432	1,410,477	37,730	1,448,207
Gross premiums (Note 24)	2,403,167	2,440,840	37,730	2,478,570
Gross change in premium liabilities	160,834	61,655	(6,368)	55,287
Gross earned premiums	2,564,001	2,502,495	31,362	2,533,857
(b) Earned Premiums ceded to reinsurers				
Life insurance contracts	(21,533)	(24,983)	-	(24,983)
General insurance contracts	(898,708)	(927,664)	(9,206)	(936,870)
Premiums ceded to reinsurers	(920,241)	(952,647)	(9,206)	(961,853)
Change in premium liabilities ceded to reinsurers	(116,434)	(22,076)	976	(21,100)
Earned premiums ceded to reinsurers	(1,036,675)	(974,723)	(8,230)	(982,953)
Net earned premiums	1,527,326	1,527,772	23,132	1,550,904

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

26. FEE AND COMMISSION INCOME

	2016	<------ 2015 ------		>
		Continuing operations	Discontinued operations	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Reinsurance commission income	76,187	48,040	2,353	50,393

27. INVESTMENT INCOME

	2016	<------ 2015 ------		>
		Continuing operations	Discontinued operations	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
AFS financial sssets				
Interest income	61,113	63,721	1,318	65,039
Dividend income				
- Quoted in Malaysia	20,733	34,947	-	34,947
- Quoted outside Malaysia	117	866	75	941
- Unquoted in Malaysia	817	3,068	-	3,068
- Unit and property trusts	2,114	1,925	38	1,963
Financial assets at FVTPL				
(i) Designated upon initial recognition				
Interest income	316,506	307,146	-	307,146
(ii) HFT				
Interest income	15,372	29,342	-	29,342
Dividend income				
- Quoted in Malaysia	17,740	18,865	-	18,865
- Unit and property trusts	226	110	-	110
LAR				
Interest income	56,515	46,272	154	46,426
Interest income from financing receivables and other loans	18,705	19,327	-	19,327
Rental income	48,288	48,374	164	48,538
Rental expense	(16,107)	(18,067)	-	(18,067)
Amortisation of premiums	(8,935)	(11,582)	(44)	(11,626)
Investment related expenses	(2,973)	(2,389)	(107)	(2,496)
Total Investment Income	530,231	541,925	1,598	543,523

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

28. REALISED GAINS

	2016	<---------- 2015	---------->	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Realised gain on disposal of:				
- property, plant and equipment	13	-	-	-
- asset held for sale	27,412	-	-	-
AFS financial assets				
Realised gains/(losses):				
- Malaysian government papers	1,428	1,989	-	1,989
- Singapore government securities	-	(69)	55	(14)
- Equity securities	(2,820)	49,990	162	50,152
- Debt securities	8,349	5,463	(124)	5,339
- Unit and property trust funds	3,988	-	-	-
- Other investments	-	(9,750)	-	(9,750)
	10,945	47,623	93	47,716
Financial assets at FVTPL				
(i) Designated upon initial recognition				
Realised gains:				
- Malaysian government papers	6,326	5,109	-	5,109
- Debt securities	18,032	55,427	-	55,427
	24,358	60,536	-	60,536
(ii) HFT				
Realised gains/(losses):				
- Malaysian government papers	6,183	910	-	910
- Equity securities	(1,896)	26,148	-	26,148
- Debt securities	5,502	(4,662)	-	(4,662)
- Unit and property trust funds	927	1,656	-	1,656
- Other investments	33,203	53	-	53
- Derivatives	(14,081)	(14,218)	-	(14,218)
	29,838	9,887	-	9,887
Total Realised Gains	92,566	118,046	93	118,139

29. FAIR VALUE GAINS/(LOSSES)

	2016	<------ 2015	------>	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Investment properties	8,950	101,860	-	101,860
Financial assets at FVTPL				
(i) Designated upon initial recognition	63,197	(87,316)	-	(87,316)
(ii) HFT	(34,865)	(50,795)	-	(50,795)
Total fair value gains/(losses) on financial assets at FVTPL	28,332	(138,111)	-	(138,111)
Total Fair Value Gains/(Losses)	37,282	(36,251)	-	(36,251)

30. OTHER OPERATING INCOME/(EXPENSES), NET

	2016	<------ 2015	------>	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Other income				
Unrealised gain on foreign exchange	9,304	41,114	-	41,114
Realised gain on foreign exchange	-	70,536	2	70,538
Processing income	-	346	-	346
Reversal of impairment losses on				
- financing receivables	771	133	-	133
- insurance receivables	9,407	5,826	-	5,826
- reinsurance assets	2,894	-	-	-
- other receivables	36	-	-	-
Sundry income	8,030	8,513	317	8,830
	30,442	126,468	319	126,787
Other expenses				
Impairment losses on				
- reinsurance assets	-	(2,234)	-	(2,234)
- AFS equity securities	(24,064)	(160,248)	(135)	(160,383)
- other receivables	-	(60)	-	(60)
Bad debts written off	(1,915)	(6,144)	-	(6,144)
Realised loss on foreign exchange	(5,024)	(1,382)	-	(1,382)
Sundry expenditure	(1,734)	(361)	-	(361)
	(32,737)	(170,429)	(135)	(170,564)
Total Other Operating (Expenses)/ Income, Net	(2,295)	(43,961)	184	(43,777)

31. NET BENEFITS AND CLAIMS

	2016 RM'000	2015 Continuing operations RM'000	2015 Discontinued operation RM'000 (Note 16)	2015 Total RM'000
(a) Gross Benefits and Claims Paid				
Insurance contracts:				
Life ^	1,650,541	2,084,848	-	2,084,848
General	889,062	686,003	11,078	697,081
	2,539,603	2,770,851	11,078	2,781,929
(b) Claims Ceded to Reinsurers				
Insurance contracts:				
Life	(17,130)	(16,457)	-	(16,457)
General	(636,987)	(453,972)	(1,224)	(455,196)
	(654,117)	(470,429)	(1,224)	(471,653)
(c) Gross Change in Contract Liabilities				
Insurance contracts:				
Life	(496,289)	(1,050,956)	-	(1,050,956)
General	85,868	(745,544)	(11,511)	(757,055)
	(410,421)	(1,796,500)	(11,511)	(1,808,011)
(d) Change in Contract Liabilities Ceded to Reinsurers				
Insurance contracts:				
Life	(3,628)	3,727	-	3,727
General	(152,892)	796,507	16,507	813,014
	(156,520)	800,234	16,507	816,741
Net Benefits and Claims	1,318,545	1,304,156	14,850	1,319,006

^ The current 2016 figures at company level have taken into consideration an inter fund elimination of RM2,227,074.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

32. MANAGEMENT EXPENSES

	2016	<---------- 2015	---------->	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Employee benefits expense (Note 32(a)	140,849	127,656	2,811	130,467
Directors' remuneration (Note 33)	1,038	1,611	-	1,611
Auditors' remuneration:				
- statutory audit	676	678	14	692
- regulatory related services	35	35	-	35
- other services	22	332	-	332
Amortisation of intangible assets	6,431	4,639	42	4,681
Amortisation of prepaid land lease payments	303	304	-	304
Bank charges	8,044	8,800	140	8,940
Depreciation of property, plant and equipment	9,610	10,362	196	10,558
Other management fees	21,165	22,953	-	22,953
Professional fees	2,338	1,066	95	1,161
Auto assist services	2,197	2,161	-	2,161
Assured medical fees	1,145	1,110	-	1,110
Rental of offices/premises	1,747	2,675	632	3,307
Electronic data processing expenses	6,879	8,712	387	9,099
Outsourcing services	505	1,099	-	1,099
Maybank shared services - information technology	13,318	11,362	-	11,362
Postage and stamp duties	2,728	2,868	22	2,890
Printing and stationery	2,507	2,877	68	2,945
Promotional and marketing cost	12,600	12,695	442	13,137
Training expenses	1,525	2,656	10	2,666
Utilities, assessment and maintenance	8,033	8,540	234	8,774
Entertainment	749	899	100	999
Travelling expenses	2,453	2,642	9	2,651
Office facilities expenses	5,750	2,596	37	2,633
Legal fees	596	1,368	13	1,381
Other expenses	16,554	20,881	452	21,333
Total Management Expenses	269,797	263,577	5,704	269,281

	2016	2015 Continuing operations	2015 Discontinued operation	2015 Total
(a) Employee benefits expense:				
Wages and salaries	102,505	89,937	2,573	92,510
EPF, CPF and TAP	16,129	14,199	204	14,403
SOCSO	629	572	-	572
Share-based compensation	694	2,759	-	2,759
Other benefits	20,892	20,189	34	20,223
	140,849	127,656	2,811	130,467

32. MANAGEMENT EXPENSES (CONTD.)

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

	2016 RM'000	2015 RM'000
Salary	462	444
Bonus	37	192
EPF and pension scheme	87	109
Benefits-in-kind	7	7
Other emoluments	87	78
	680	830

33. DIRECTORS' FEES AND REMUNERATION

	2016 RM'000	2015 RM'000
(i) Directors of the company		
Fees	895	1,473
Allowance	88	107
Other emoluments	6	-
	989	1,580
(ii) Other directors:		
Executive:		
Fees	43	29
Allowance	6	2
	49	31
Total Directors' Fees and Remuneration	1,038	1,611

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

33. DIRECTORS' FEES AND REMUNERATION (CONTD.)

(a) The total remuneration of the directors of the Company are as follows:

	Allowance RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000
2016				
(i) Directors of the Company:				
Non-executive directors				
Dato' Mohd Salleh Hj Harun	1	26	-	27
Dato' Johan Ariffin	15	145	-	160
Encik Zainal Abidin Jamal	6	33	-	39
Mr. Gary Lee Crist	4	58	-	62
Datuk R Karunakaran	10	151	-	161
Mr. Loh Lee Soon	16	141	3	160
Mr. Frank J.G Van Kempen	15	141	-	156
Mr. Koh Heng Kong	16	129	3	148
Mr. Philippe Pol Arthur Latour	5	71	-	76
	88	895	6	989
(ii) Other Directors				
Non-executive directors				
Datuk' Abdul Farid Alias	4	28	-	32
Dato' Mohamed Rafique Merican	2	15	-	17
	6	43	-	49
	94	938	6	1,038
2015				
(i) Directors of the Company				
Non-executive directors				
Dato' Mohd Salleh Hj Harun	8	203	-	211
Dato' Johan Ariffin	16	186	-	202
Encik Zainal Abidin Jamal	12	172	-	184
Mr. Gary Lee Crist	6	157	-	163
Datuk R Karunakaran	19	208	-	227
Mr. Loh Lee Soon	17	182	-	199
Mr. Frank J.G Van Kempen	16	195	-	211
Mr. Koh Heng Kong	13	170	-	183
	107	1,473	-	1,580
(ii) Other Directors				
Non-executive directors				
Datuk' Abdul Farid Alias	2	29	-	31
	2	29	-	31
	109	1,502	-	1,611

34. FEE AND COMMISSION EXPENSES

	2016	<---------- 2015	---------->	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Costs incurred for the acquisition of insurance contracts expensed	171,964	156,763	5,884	162,647

35. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2016 and 31 December 2015 are:

	2016	<---------- 2015	---------->	
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Income Statement				
Income tax:				
Current financial year				
- Malaysia	46,852	54,440	-	54,440
- Foreign	-	-	(83)	(83)
(Over)/under provision of taxation in prior financial years	(18,099)	68	-	68
Deferred taxation:				
Relating to origination and reversal of temporary differences (Note 21)	65,227	48,620	-	48,620
Income tax expense/(recovery) recognised income statement	93,980	103,128	(83)	103,045
Statement of Comprehensive Income				
Deferred income tax related to other comprehensive income:				
- Fair value changes on AFS investments (Note 21)	480	7,160	-	7,160

35. INCOME TAX EXPENSE (CONTD.)

Reconciliation between tax expense and accounting profit

The 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 of the Company is as follows:

	2016	<------ 2015 ------>		
		Continuing operations	Discontinued operation	Total
	RM'000	RM'000	RM'000 (Note 16)	RM'000
Profit before taxation	443,887	386,079	922	387,001
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	106,533	96,520	-	96,520
Business outside Malaysia taxed at 5%	-	-	(46)	(46)
Tax relief on actuarial surplus transferred to shareholder's fund	-	(767)	-	(767)
Income not subject to tax	(7,204)	(1,010)	-	(1,010)
Expenses not deductible for tax purposes	12,750	12,336	-	12,336
Effect of reduction in tax rate	-	(2,266)	-	(2,266)
Additional deduction allowed in respect of cash contributions made to MMIP during the year	-	(1,753)	-	(1,753)
Refund of taxation	-	-	(37)	(37)
Under provision of taxation in prior financial year	(18,099)	68	-	68
Tax expense for the financial year	93,980	103,128	(83)	103,045

Domestic income tax for shareholder's fund and general fund are calculated on the estimated assessable profit for the financial year at Malaysian statutory tax rate of 24% (2015: 25%).

Taxation borne by policyholders

	2016 RM'000	2015 RM'000
Income tax:		
Current financial year	29,341	31,305
Over provision of taxation in prior financial years	871	(2,056)
Deferred taxation:		
Relating to origination and reversal of temporary differences (Note 21)	6,249	(4,903)
	36,461	24,346

35. INCOME TAX EXPENSE (CONTD.)

The income tax borne by policyholders are calculated based on the statutory rate of 8% (2015: 8%) of the estimated assessable investment income net of allowable deductions for the financial year.

36. EARNINGS PER SHARE

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

	2016 RM'000	2015 RM'000
Profit attributable to ordinary equity holders:		
- Continuing operations	349,907	282,951
- Discontinued operation	-	1,005
	349,907	283,956

	2016 '000	2015 '000
Number of ordinary share in issue	152,151	152,151

	2016 sen	2015 sen
Basic and diluted earnings per share:		
- Continuing operations	229.97	185.97
- Discontinued operation	-	0.66
	229.97	186.63

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

37. DIVIDENDS

	2016 RM'000	2015 RM'000
Recognised during the financial year:		
Dividend on ordinary shares:		
- Final dividend for the year ended 31 December 2015: Single-tier dividend of 131.5 sen per share	200,079	-
- Final dividend for the year ended 31 December 2014: Single-tier dividend of 243.2 sen per share	-	370,032
	200,079	370,032

37. DIVIDENDS (CONTD.)

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2016, of 111.73 sen per share on 152,151,399 ordinary shares, amounting to a dividend payable of RM169,998,758, will be proposed for shareholder's approval. The financial statements for the current financial year do not reflect the proposed final dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2017.

38. OPERATING LEASE COMMITMENTS

(a) Company as lessee

As at the reporting date, the Company leases its office premises under lease agreements that are not cancellable within a year. The leases contain renewable options.

Future minimum lease payments for the leases with initial or remaining terms of one year or more are as follows:

	2016 RM'000	2015 RM'000
Within 1 year	1,098	2,215
After 1 year but not more than 5 years	2,773	5,932
	3,871	8,147

Rental expenses recognised in the income statement during the financial year are disclosed in Note 32.

(b) Company as lessor

The Company has entered into operating lease agreements on its portfolio of investment properties. The leases have remaining lease terms of between 1 and 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The leases also include a clause that allows for early termination but requires the tenant to provide a replacement tenant or pay for the remaining unexpired lease period.

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

	2016 RM'000	2015 RM'000
Not later than 1 year	38,335	39,972
After 1 year but not more than 5 years	57,079	67,694
	95,414	107,666

38. OPERATING LEASE COMMITMENTS (CONTD.)

(b) Company as lessor (Contd.)

Rental income on investment properties recognised in the income statement during the financial year is disclosed in Note 27.

39. OTHER COMMITMENTS AND CONTINGENCIES

	2016 RM'000	2015 RM'000
Approved and contracted for:		
Investment properties	207,107	42,043
Property, plant and equipment	4,967	3,926
Intangible assets	2,374	13,910
	214,448	59,879
Approved but not contracted for:		
Investment properties	12,477	211,194
Intangible assets	3,600	3,613
	16,077	214,807

40. SHARE BASED COMPENSATION

The Maybank Group ESS is governed by the by-laws approved by the shareholders of MBB at an Extraordinary General Meeting held on 13 June 2011. The ESS was implemented on 23 June 2011. It is in force for a maximum period of seven (7) years from the effective date and it is administered by the ESS Committee. The ESS consists of two (2) types of performance-based awards in the form of ESOS and RSU.

The Maybank Group Cash-settled Performance-based Employees' Share Scheme ("CESS") is governed by the guidelines approved by the members of the ESS Committee on 15 June 2011.

40. SHARE BASED COMPENSATION (CONTD.)

The maximum number of ordinary shares of RM1.00 each in the Bank available under the ESS should not exceed 10% of the total number of issued and paid-up capital of MBB at any point of time during the duration of the scheme. Other principal features of the ESS are as follows:

(i) The employees eligible to participate in the ESS must be employed on a full time basis and on the payroll of the Participating Maybank Group and is confirmed in service.

Participating Maybank Group includes MBB and its overseas branches and subsidiaries of which the Company is included, but excluding listed subsidiaries, overseas subsidiaries and dormant subsidiaries.

(ii) The entitlement under the ESS for the Executive Directors, including any persons connected to the directors, is subject to the approval of the shareholders of MBB in a general meeting.

(iii) The ESS shall be valid for a period of seven (7) years from the effective date.

Notwithstanding the above, MBB may terminate the ESS at any time during the duration of the scheme subject to:

- consent of MBB's shareholders at a general meeting, wherein at least a majority of the shareholders, present and voting, vote in favour of termination; and

- written consent of all participants of ESS who have yet to exercise their ESS option, either in part or in whole, and all participants whose RSU Agreement are still subsisting.

Upon the termination of the ESS, all unexercised ESS and/or unvested RSU shall be deemed to have been cancelled and be null and void.

(iv) The ESS consists of the ESOS, the RSU and the CESS. Personnel of the Company are eligible only for the ESOS and RSU but are not eligible for the CESS.

- <u>ESOS</u>
  Under the ESOS award, MBB may from time to time within the offer period, offer to eligible employees a certain number of options at the Offer Date. Subject to acceptance, the participants will be granted the ESOS which can then be exercised within a period of five (5) years to subscribe for fully paid-up ordinary shares of RM1.00 each in MBB, provided all the conditions including performance-related conditions are duly and fully satisfied.

40. SHARE BASED COMPENSATION (CONTD.)

(iv) The ESS consists of the ESOS, the RSU and the CESS. Personnel of the Company are eligible only for the ESOS and RSU but are not eligible for the CESS (Contd.).

- **RSU**
  Under the RSU award, MBB may from time to time within the offer period, invite selected participants to enter into an agreement with MBB, whereupon MBB shall agree to award the scheme shares to the participants, subject to fulfilling the relevant service and performance objectives and provided all performance-related conditions are duly and fully satisfied. The scheme's shares as specified under the RSU award will only vest based on a three (3) year cliff vesting schedule or a two (2) year cliff vesting schedule in the case of supplemental RSU award, provided all the RSU vesting conditions are fully and duly satisfied.

(v) Key features of the ESOS award are as follows:

- On 23 June 2011, MBB granted five (5) tranches of ESOS amounting to 405,308,500 options based on the assumption that the eligible employees met the average performance target ("ESOS First Grant"). The first tranche of ESOS under the ESOS First Grant amounting to 80,871,000 options have been vested and exercisable as at 30 June 2011. The second tranche of ESOS under the ESOS First Grant amounting to 42,136,100 options have been vested and exercisable as at 30 April 2012. The third tranche of ESOS under the ESOS First Grant amounting to 78,885,100 options have been vested and exercisable as at 30 April 2013. The fourth tranche of ESOS under the ESOS First Grant amounting to 74,253,400 options have been vested and exercisable as at 30 April 2014. The fifth tranche of ESOS under the ESOS First Grant amounting to 69,854,500 options have been vested and exercisable as at 30 April 2015.

  On 10 August 2015, ESS Committee approved the vesting of an additional sixth tranche of ESOS under ESOS First Grant amounting to 34,951,500 options effective 30 September 2015. The sixth tranche is awarded to the eligible employees after taking into consideration the change in the financial year end from 30 June to 31 December, where the second tranche of ESOS was brought forward and prorated based on six months. The ESOS quantum to be allotted under the sixth tranche prorated based on six months period.

  During the financial year ended 31 December 2016, the Bank granted 5,600 options and 3,000 options for appeal cases for fifth and sixth tranche of ESOS First Grant.

40. SHARE BASED COMPENSATION (CONTD.)

(v) Key features of the ESOS award are as follows (Contd.):

- On 30 April 2012, MBB granted five (5) tranches of ESOS amounting to 62,339,000 options to confirmed new recruits in the Group ("ESOS Second Grant"). The first tranche of ESOS under ESOS Second Grant amounting to 6,185,800 options have been vested and exercisable as at 7 May 2012. The second tranche of ESOS under ESOS Second Grant amounting to 12,870,600 options have been vested and exercisable as at 30 April 2013. The third tranche of ESOS under ESOS Second Grant amounting to 12,002,000 options have been vested and exercisable as at 30 April 2014. The fourth tranche of ESOS under ESOS Second Grant amounting to 10,808,600 options have been vested and exercisable as at 30 April 2015. MBB also granted options for appeal cases for the first tranche and second tranche of ESOS Second Grant amounting to 1,300 and 3,100 respectively in the previous financial year ended 31 December 2015. The fifth tranche of ESOS under ESOS Second Grant amounting to 9,424,800 options have been vested and exercisable as at 4 May 2016.

  On 30 September 2016, ESS Committee approved the vesting of an additional sixth tranche of ESOS under ESOS Second Grant amounting to 4,687,000 options effective 30 September 2016. The sixth tranche is awarded to the eligible employees after taking into consideration the change in the financial year end from 30 June to 31 December, where the first tranche of ESOS was brought forward and prorated based on six months. The ESOS quantum to be alloted under the sixth tranche prorated based on six months period.

- On 30 April 2013, MBB granted five (5) tranches of ESOS amounting to 53,593,800 options to confirmed new recruits in the Group ("ESOS Third Grant"). The first tranche of ESOS under ESOS Third Grant amounting to 9,199,800 options have been vested and exercisable as at 21 May 2013. The second tranche of ESOS under ESOS Third Grant amounting to 10,523,300 options have been vested and exercisable as at 30 April 2014. The third tranche of ESOS under ESOS Third Grant amounting to 9,197,600 options have been vested and exercisable as at 30 April 2015. The fourth tranche of ESOS under ESOS Third Grant amounting to 7,806,200 options have been vested and granted as at 3 May 2016, while the remaining tranches of ESOS and the corresponding number of ESOS will be vested and exercisable upon fulfillment of predetermined vesting conditions including service period, performance targets and performance period.

40. SHARE BASED COMPENSATION (CONTD.)

(v) Key features of the ESOS award are as follows (Contd.):

- On 30 April 2014, MBB granted five (5) tranches of ESOS amounting to 54,027,800 options to confirmed new recruits in the Maybank Group ("ESOS Fourth Grant"). The first tranche of ESOS under ESOS Fourth Grant amounting to 9,651,900 options have been vested and exercisable as at 21 May 2014. The second tranche of ESOS under ESOS Fourth Grant amounting to 10,591,900 options have been vested and exercisable as at 30 April 2015. MBB also granted 100,000 options related to change of staff grade and 100 options for appeal cases for the first tranche of ESOS Fourth Grant in the previous financial year ended 31 December 2015. The third tranche of ESOS under ESOS Fourth Grant amounting to 9,018,700 options have been vested and exercisable as at 3 May 2016, while the remaining tranches of ESOS and the corresponding number of ESOS will be vested and exercisable upon fulfillment of predetermined vesting conditions including service period, performance targets and performance period.

- On 30 April 2015, MBB granted four (4) tranches of ESOS amounting to 48,170,100 options to confirmed new recruits in the Maybank Group ("ESOS Fifth Grant"). The first tranche of ESOS under ESOS Fifth Grant amounting to 11,439,300 options have been vested and exercisable as at 21 May 2015. The second tranche of ESOS under ESOS Fifth Grant amounting to 11,250,300 options have been vested and exercisable as at 3 May 2016, while the remaining tranches of ESOS and the corresponding number of ESOS will be vested and exercisable upon fulfillment of predetermined vesting conditions including service period, performance targets and performance period.

- On 30 September 2015, MBB granted three (3) tranches of ESOS amounting to 992,400 options to confirmed new recruits in the Maybank Group ("ESOS Special Grant"). The first tranche of ESOS under ESOS Special Grant amounting to 309,400 options have been vested and exercisable as at 21 October 2015. The second tranche of ESOS under ESOS Special Grant amounting to 215,500 options have been vested and exercisable as at 3 May 2016, while the remaining tranches of ESOS and the corresponding number of ESOS will be vested and exercisable upon fulfillment of predetermined vesting conditions including service period, performance targets and performance period.

40. SHARE BASED COMPENSATION (CONTD.)

(v) Key features of the ESOS award are as follows (Contd.):

- The new ordinary shares in MBB allotted upon any exercise of options under the scheme will upon allotment, rank pari passu in all aspects with the then existing ordinary shares in MBB, except that the new ordinary shares so issued will not rank for any dividends or other distribution declared, made or paid to shareholders prior to the date of allotment of such new ordinary shares and will be subject to all the provisions of the Article of Association of MBB relating to transfer, transmission and otherwise.

- The subscription price of the ESOS shall be the Volume Weighted Average Market Price ("VWAMP") of MBB Shares for the five (5) market days immediately preceding the offer date with no entitlement to any discount.

(vi) Key features of the RSU award are as follows:

- The RSU granted will be vested and awarded upon the fulfillment of predetermined vesting conditions including service period, performance targets and performance period.

- The scheme shares on RSU may be settled by way of issuance and transfer of new MBB Shares or by cash at the absolute discretion of the ESS Committee. The new MBB Shares to be issued and transferred to eligible employees pursuant to physical settlement will not require any payment to MBB by the RSU participants.

- In the case of settlement by way of cash, the RSU vesting price will be based on the value of the scheme shares with no entitlement to any discount, taking into account the VWAMP of MBB Shares for the five (5) market days immediately preceding the RSU vesting date.

- The ESS Committee may, from time to time during the ESS period, make further RSU grant designated as Supplemental RSU Grant ("SRSU grant") to a selected group of eligible employees to participate in the RSU award. This selected group may consist of senior management, selected key retentions and selected senior external recruits and such SRSU grant may contain terms and conditions which may vary from earlier RSU grant made to selected senior management. The SRSU will be vested on a two (2) to three (3) years cliff vesting schedule.

41. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes all the directors and chief executive officers of the Company.

The Company has related party relationships with its shareholders, subsidiaries, associates, key management personnel and the subsidiaries and associates of a company with significant influence over its shareholders.

Related party transactions have been entered into in the normal course of business under normal trade terms.

(a) Significant transactions of the Company with related parties during the financial year were as follows:

	2016 RM'000	2015 RM'000
Income/(expenses):		
Ultimate holding company:		
Gross premium income	28,270	26,129
Commissions and fees expenses	(73,939)	(67,997)
Claims paid	(6,952)	(25,989)
Interest income	17,970	31,002
Rental income	3,198	3,537
Net hedging income	736	1,042
Other expenses	(6,276)	(3,995)
Holding company:		
Gross premium income	267	283
Rental income	103	111
Claims paid	(332)	-
Shared service cost	(3,980)	(5,859)
Other expense	(182)	(16)
Final dividend	(200,079)	(370,032)

41. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)

(a) Significant transactions of the Company with related parties during the financial year were as follows (Contd.):

	2016 RM'000	2015 RM'000
Other related companies within the MBB group:		
Gross premium income	23,668	438
Premium ceded to reinsurers	(21,492)	-
Dividend income	2,006	1,765
Commissions and fee expenses	(7,652)	-
Reinsurance commission income	8,920	-
Interest income	11,771	9,772
Rental income	14,690	14,886
Other investment income	23	25
Other management expenses	-	(65)
Shared service income	51,430	52,103
Maybank shared service - information technology	(13,318)	(11,362)
Claims paid	(305)	-
Claims recovery from reinsurers	1,466	-
Investment advisory fee	(750)	(750)
Reimbursement of advisory fee	789	-
Other income	258	-
Other expenses	(67)	(283)
Companies with significant influence over the MBB Group:		
Gross insurance premium income	6,245	4,510
Claims paid	(4,281)	(3,374)
Interest on subordinated obligation	(10,941)	(10,945)
Shareholder of holding company:		
Remuneration of seconded employee	(1,189)	-
Professional fee	(414)	-

(b) Included in the statement of financial position of the Company are amounts due from/(to) related companies represented by the following:

	2016 RM'000	2015 RM'000
Ultimate holding company:		
Fixed and call deposits	383,751	169,635
Structured deposits	50,155	125,365
NCD	-	68,963
Corporate bonds	35,421	170,548
Derivatives	(56,603)	(56,480)
Bank balances	82,880	57,366

41. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)

(b) Included in the statement of financial position of the Company are amounts due from/(to) related companies represented by the following (Contd.):

	2016 RM'000	2015 RM'000
Ultimate holding company (contd.):		
Income due and accrued	1,184	4,451
Outstanding premiums	9,868	9,628
Claim liabilities	(11,587)	(60,656)
Amount due from ultimate holding company	612	427
Other receivables	1,932	97
Other payables	(2,373)	(2,533)
Holding company:		
Amount due to holding company	(1,606)	(1,146)
Other related companies within the MBB Group:		
Fixed and call deposits	291,770	475,420
Structured deposits	-	4,782
Derivatives	-	1,139
Outstanding premiums	14	1
Income and profits due and accrued	2,211	1,972
Amount due from reinsurers and cedants	4,923	-
Reinsurance assets	1,190	-
Claims liabilities	(4,959)	-
Other receivables	150	-
Amount due from other related companies	6,833	6,776
Amount due to other related companies	(23)	(2)
Companies with significant influence over the MBB Group:		
Outstanding premiums	40	75
Claims liabilities	(22)	(2,739)
Amount due to agents and intermediaries	(146)	(87)
Subordinated obligation	(270,364)	(270,367)
Subsidiary:		
Amount due to subsidiary	(1,640)	(1,644)

41. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)

(c) Key management personnel compensation

(i) The remuneration of key management personnel during the year was as follows:

	2016 RM'000	2015 RM'000
Short-term employee benefits		
- Salaries, allowances and bonuses	593	745
- Fees	938	1,502
- EPF and pension scheme	87	109
- Other emoluments and benefits-in-kind	100	85
	1,718	2,441

(ii) The movement in the number of ESOS granted and vested to key management personnel are as follows:

	2016 '000	2015 '000
At 1 January	155	95
Vested and exercisable	15	60
At 31 December	170	155

(iii) The movements in the number of RSU granted to key management personnel are as follows:

	2016 '000	2015 '000
Granted during the financial year:		
- RSU Fifth Grant	-	15

The remuneration of other key management personnel, that is the non-executive directors of the Company are as disclosed in Notes 32 and 33 of the financial statements.

42. SIGNIFICANT EVENTS

(a) Closure of Brunei branch

On 31 October 2016, the closure of the Company's Brunei branch office was completed and updated in the Financial Institutions Corporate Profile System ("FICPS") of BNM.

In accordance to advice by Autoriti Monetari Brunei Darussalam, the branch will continue to be registered under the local Insurance Order. It shall cease to be registered under the Insurance Order and the Registrar of Companies after the limitation period of 6 years for any potential claims against the branch has expired.

During this run-off period, the Company has appointed a local authorised representative to transact on behalf of the branch, including to accept notices, claims and settlement of claims, deal with any queries with regards to the insurance policies issued by the Company and generally to serve as a contact point for the relevant authorities.

(b) Transfer of Singapore branch's general insurance business to Etiqa Insurance Pte. Ltd. ("EIPL")

On 1 April 2015, the general insurance business of the Company's Singapore branch was transferred to a related party, EIPL under the Scheme of Transfer ("SOT") as approved by the High Court of Singapore on 27 January 2015, at a purchase consideration of RM135,478,316. Subsequently, on 27 November 2015, the Company surrendered the licence relating to its Singapore branch.

The major classes of assets and liabilities of the general insurance business transferred as at 1 April 2015 were as follows:

	RM'000
Assets:	
Property, plant and equipment	1,416
Intangible assets	389
Investments	304,854
Reinsurance assets	46,764
Insurance receivables	36,173
Other receivables	12,622
Cash and bank balances	11,700
Total Assets	413,918
Liabilities:	
Insurance contract liabilities	248,919
Insurance payables	5,482
Other payables	24,039
Total Liabilities	278,440
Net Assets	135,478

The purchase consideration was satisfied by cash.

43. INTEGRATED RISK MANAGEMENT FRAMEWORK

The Integrated Risk Management Framework defines the governance structure to support the Risk Management process and to ensure strong risk management. It defines the risk related roles and responsibilities of the different Boards, Committees and Departments for the legal entities within Maybank Ageas Holdings Berhad ("MAHB"), being Etiqa Insurance Berhad ("EIB"), Etiqa Takaful Berhad ("ETB") and Etiqa Insurance Pte. Ltd. ("EIPL"), collectively known as "the Group".

Six (6) key building blocks have been sets which serve as the foundation for risk management and executed in accordance with the standards and risk appetite set by the Board.

The overall risk management process is viewed in a structured and disciplined approach to align strategies, policies, processes, people and technology with the specific purpose of evaluating all risk types in line with enhancing shareholder value.

Principles

The approach to risk management is premised on the following seven (7) broad principles:

- Establish Risk Appetite and Strategy
- Assign Adequate Capital
- Ensure Governance and Oversight Function
- Promote Strong Risk Culture
- Establish Adequate Risk Framework and Policies
- Establish Risk Management Practices and Processes
- Ensure Sufficient Resources and System Infrastructures

Risk Appetite and Strategy

The establishment of the Company's risk appetite is a critical component of a robust risk management framework and should be driven by both top-down Board leadership and bottom-up involvement of management at all levels. The risk appetite should enable the Board of Directors ("the Board") and Senior Management to communicate, understand and assess the types and level of risk that they are willing to accept in pursuit of its business objectives.

43. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

Risk Appetite and Strategy (Contd.)

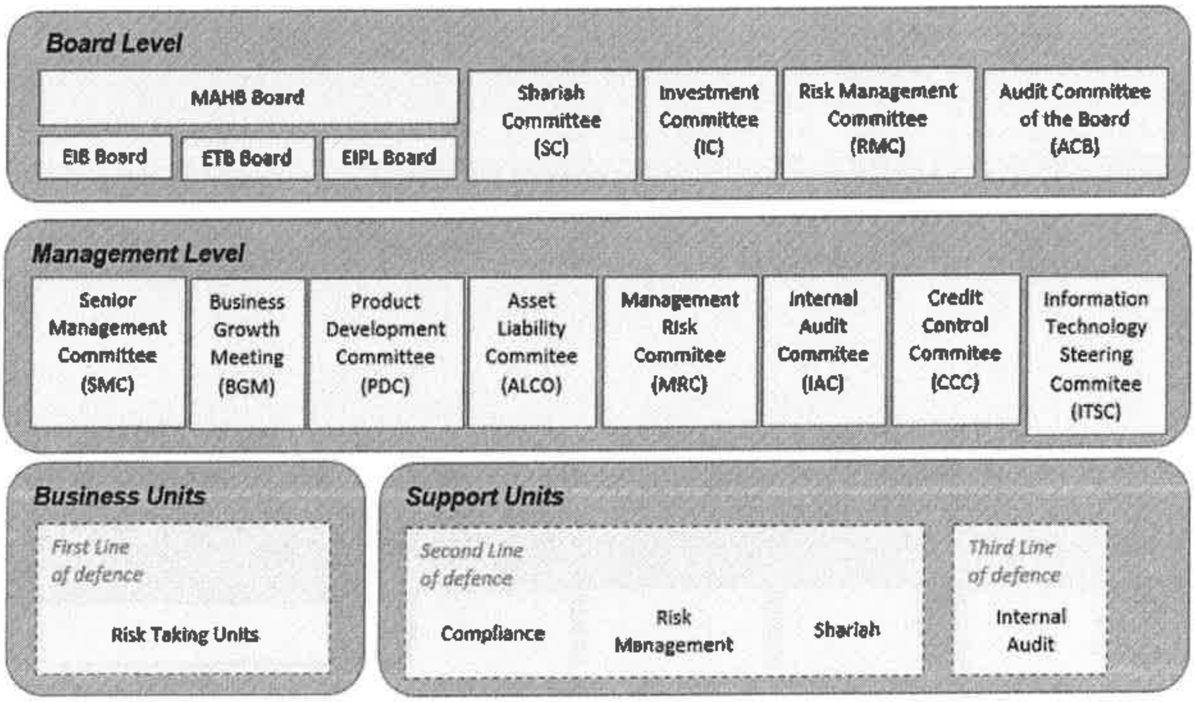
Developing and setting the risk appetite must be integrated into the strategic planning process and should be dynamic and responsive to changing business and market conditions. Over and above this, the budgeting process should be aligned to the risk appetite to ensure that the projected revenues arising from business transactions are consistent with the risk profile and risk appetite established.

Governance and Oversight

The Group continuously enhances its integrated risk management approach towards effective management of enterprise-wide risks. The management of risk broadly takes place at different hierarchical levels and is emphasised through various levels of Committees, business lines, control and reporting functions.

The risk governance model provides a formalised, transparent and effective governance structure which promotes active involvement of the Board and Senior Management in the risk management process to ensure a uniform view of risk across the Group.

The risk governance structure outlines the organisation, hierarchy and the scope of responsibilities of all the governance bodies involved in the risk management function. The Risk Management function is built around a number of Boards and Committees that have been set-up, including the Board of Directors (Board), the Risk Management Committee (RMC) and the Management Risk Committee (MRC).



The governance structure aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the three (3) lines of defence which include the risk taking units, risk control units and internal audit.

43. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

Board
The MAHB Board, together with the EIB, ETB and EIPL Boards, have the final responsibility for all business activities, including risk management. The Board is the ultimate decision-making body of the Group. The Boards have delegated specific matters to sub-Board Committees, such as risk matters to the Risk Management Committee, Audit matters to the Audit Committee and investment matters to the Investment Committee.

SC
The role of the SC is to oversee shariah compliance for the takaful subsidiary. The SC assists the Board in fulfilling its supervision and monitoring responsibilities in respect of Shariah principles.

RMC
The roles of the RMC is to assist the Board in fulfilling its supervision and monitoring responsibility in respect of internal control, including monitoring the risk profiles of the legal entities and combined and compared to the targeted level of risk appetite as set by the Board.

IC
The role of the IC is to provide an oversight function for investment related activities.

ACB
The role of the ACB is to assist the Board in fulfilling its supervision and monitoring responsibilities in respect of internal audit and external audit activities.

SMC
The responsibility of the SMC is to assure the Board that the Group takes the appropriate decisions regarding risks and return and to ensure adequate controls exist and are fully operational.

MRC
The MRC is the advisor to the RMC concerning all risk related topics, including limits, exposures and methodologies.

ALCO
The ALCO is responsible for investment strategy and operations. It will carry out its responsibilities within the limits set by the MRC taking into consideration the Risk Appetite and Asset Liability Management ("ALM") constraints.

43. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

IAC
The IAC is responsible for the monitoring and follow-up of audit findings.

BGM
BGM is a platform for business leaders to discuss business growth development issues.

PDC
The PDC's prime objective is to coordinate and manage the whole process of product development and product management for the specific product lines derived from the overall marketing plan of the Group.

CCC
CCC ensures compliance with all the regulations and guidelines pertaining to collection and outstanding contribution, monitors and controls outstanding collections efficiently, minimises bad and doubtful debts by implementing preventive measures, and initiates legal proceedings for recovery of bad and doubtful debts when all other methods fail.

Risk Culture

Risk culture is a vital component in strengthening the Group's risk governance structure and forms a fundamental tenet of strong risk culture management. It serves as the foundation upon which a strong enterprise wide risk management structure is built.

It stems from the conduct of staff, businesses and the organisation as a whole in ensuring that customers, either internal or external, are treated fairly and their interest upheld at all times.

Risk culture aligns the businesses objectives and attitude towards risk taking and risk management through risk appetite by establishing the way in which risks are identified, measured, controlled, monitored and reported.

The risk culture can be strengthened by a strong tone from the top that establishes the expected risk behaviour, and then operationalised by the tone from the middle. Both levels are responsible to articulate and exemplify the underlying values that support the desired risk culture. This is driven by a clear vision for an effective approach to risk, ingrained at all levels and built into the behaviour of each individual.

In line with the evolving market environment and dynamics within the Company and across industries, a strong risk culture requires constant attention to ensure that the material risk developments are appropriately identified, properly understood, actively discussed and strategically acted upon.

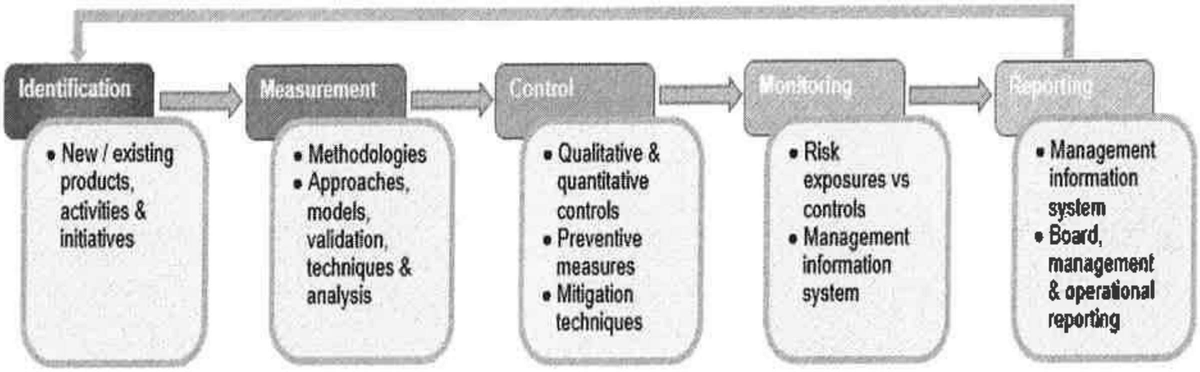
43. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

Risk Management Practices and Processes

Risk management practices and processes are a fundamental component of the risk principles. It is essential in enabling systematic identification, measurement, control, monitoring and reporting of risk exposures.

To enable an effective execution of risk management practices and processes, a common risk language is an imperative pre-requisite in facilitating a consistent and uniform approach in reference to risks across the Company.

The five (5) main stages of the risk management process which form a continuous cycle as follows:



Resource and System Insfrastructure

Appropriate system infrastructure and resources are the foundation and enabler to an effective risk management practices and processes. As a result, the Company should equip itself with necessary resources, infrastructure and support to perform its roles efficiently.

Resources

To execute the risk principles, objectives, strategies and processes at the various hierarchical levels within the governance model, all risk functions that are in place must be adequately staffed with the relevant personnel to carry out their responsibilities independently and effectively.

The personnel within risk management should possess the requisite skills, qualifications, experience and competencies compatible with the nature, scale and complexity of the Group's business activities.

The personnel should be equipped with the required knowledge to understand the various activities and risk profile of businesses and challenge these lines in all facets of risk taking activities.

43. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

System Infrastructure

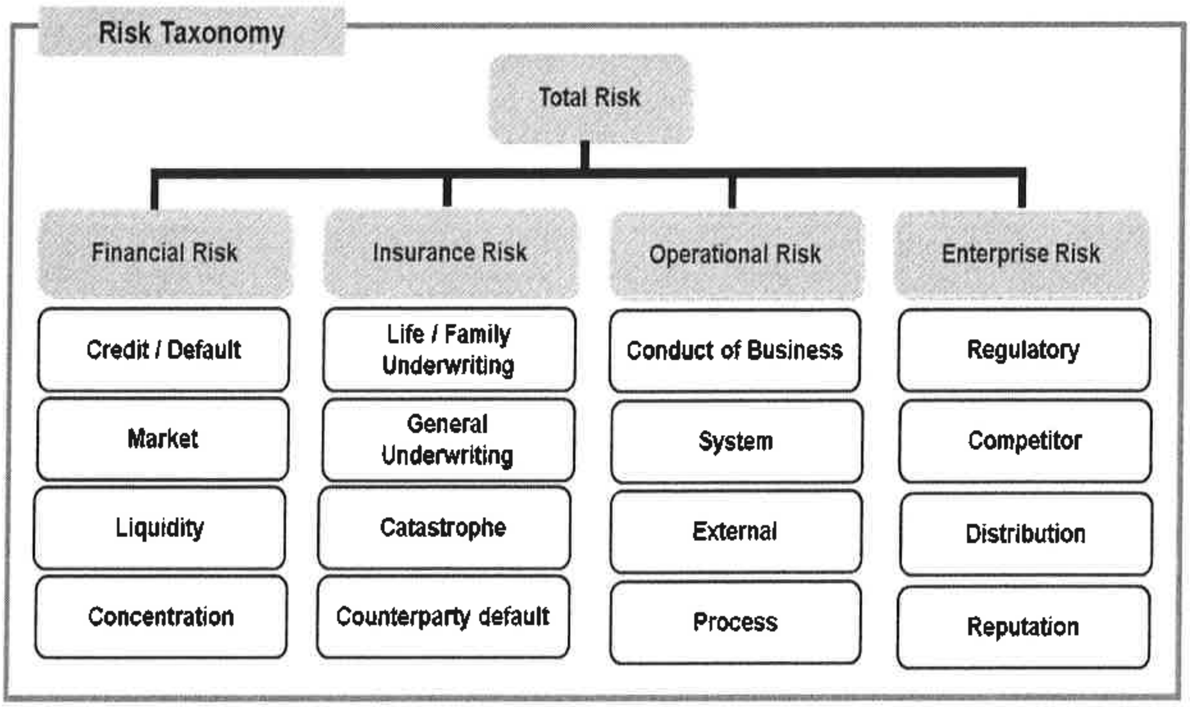
With the current complexity of business operations and activities, it is critical to have a comprehensive and integrated system infrastructure to support an enterprise-wide or consolidated view of risks. The system infrastructure should be able to provide adequate and effective data aggregation capabilities at all times, with accurate, complete, timely and adaptable data to facilitate effective risk management practices and processes.

Through established infrastructure, the roles and responsibilities required for the effective management of risk can be performed appropriately.

In addition, effective measures and systems must be in place to facilitate the generation and exchange of information within the Group. This is important to ensure a swift response to changes in the operating environment and developments in business strategies.

RISK TAXONOMY

The major risk categories are governed by the Risk Taxonomy which consists of Financial, Insurance, Operational and Enterprise Risk. The Risk Management Department works hand-in-hand with the Compliance Department, the Legal Department and the Shariah Division on risk related matters.



44. INSURANCE RISK

Insurance risk relates to the inherent risks associated with the underwriting activities of life and general businesses. Such risks include pricing, reserving, underwriting, catastrophe and reinsurance counterparty default. Analyses are performed to ensure that insurance risks are within the company's risk appetite. Recommendations are provided to relevant stakeholders after identifying and evaluating significant trends.

Reinsurance offers financial protection to insurers against large and catastrophic events. It allows efficient use of capital to support future business growth, whilst reducing the volatility of financial results and solvency. Risks associated with reinsurance companies are the counterparty risk of reinsurers failing to honor their obligations. The Company monitors the ability of all current and prospective reinsurers to meet their obligations under exceptional but plausible adverse events on a monthly basis.

The Company has established appropriate policies and monitoring metrics combined with authority limits as part of risk mitigation activities embedded in the business operations. Annual internal audit reviews are performed to ensure compliance with the Company's guidelines and standards.

(A) Life Insurance

(i) The table below discloses the concentration of actuarial liabilities by type of contract.

	<------ 2016		------>	<------ 2015		------>
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Whole life	687,925	-	687,925	659,514	-	659,514
Endowment	3,334,396	-	3,334,396	3,389,032	-	3,389,032
Mortgage	839,769	(21,322)	818,447	875,888	(19,500)	856,388
Term assurance	319,062	-	319,062	353,935	-	353,935
Annuity	600,087	-	600,087	213,396	-	213,396
Others	123,531	-	123,531	434,297	-	434,297
Total	5,904,770	(21,322)	5,883,448	5,926,062	(19,500)	5,906,562

All of the Company's life business is derived from Malaysia and, accordingly, a geographical analysis by country is not relevant to the Company.

44. INSURANCE RISK (CONTD.)

(A) Life Insurance (Contd.)

(ii) Key Assumptions

Material judgement is required in determining the insurance liabilities. Assumptions used in determining the insurance liabilities are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and trends. Assumptions and estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a periodic basis in order to ensure realistic and reasonable valuations.

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

(a) Discount rate

The discount rate used for non-participating policies, guaranteed benefit liabilities of participating policies and the non-unit liability of investment-linked policies is the yield observed on MGS of the appropriate duration.

In the case of the total (guaranteed and non-guaranteed) of participating policies, the discount rate is based on the expected fund yield of the participating fund, net of tax on investment income of the participanting fund. The best estimate investment return for participating business is derived from the expected returns of the respective investment classes and long term strategic assets allocation. Participating business includes participating annuity. The discount rate for participating annuity business is the gross rate as these funds are tax exempt.

(b) Mortality and morbidity rates

Mortality and morbidity rates represent the expected claims experience of the Company.

The Company bases mortality and morbidity on local established industry tables which reflect historical experiences, and reinsurance premium rates adjusted when appropriate to reflect the insurer's unique risk exposure, product characteristics, target markets and its own claims severity and frequency experience.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

44. INSURANCE RISK (CONTD.)

(A) Life Insurance (Contd.)

(ii) Key Assumptions (Contd.)

(c) Lapse and surrender rates

Lapse and surrender rates are used to determine the expected persistency of the business i.e. policyholders renew their policies etc. These rates are based on the Company's historical experience of lapses and surrenders.

(d) Expenses

Expense assumptions represent the expected amount that will be incurred in servicing the policies over its expected life. Assumptions on future expenses take into consideration current expense levels and the expected expense inflation.

(iii) Sensitivity Analysis

The analysis below is performed for reasonably possible movements in key assumptions affecting the determination of insurance liabilities with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity.

The correlation of assumptions will have a significant effect on the sensitivities but to demonstrate the impact due to changes in specific assumptions, these sensitivities are analysed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

2016	Change in Assumptions %	Impact on Gross Liabilities RM'000	Impact on Net Liabilities** RM'000	Impact on Profit Before Tax RM'000	Impact on Equity RM'000
		<-------- Increase	-------->	<-------- Decrease	-------->
Discount rate*	-1%	497,132	495,901	(191,972)	(161,508)
Mortality and morbidity rates	+/- 10% (adverse)	130,431	127,875	(102,524)	(77,918)
Lapse and surrender rates	+/- 10% (adverse)	26,242	26,266	(3,415)	(2,595)
Expenses	+10%	32,223	32,223	(22,626)	(17,195)

44. INSURANCE RISK (CONTD.)

(A) Life Insurance (Contd.)

(iii) Sensitivity Analysis (Contd.)

	Change in Assumptions %	Impact on Gross Liabilities RM'000	Impact on Net Liabilities** RM'000	Impact on Profit Before Tax RM'000	Impact on Equity RM'000
		<-------- Increase -------->		<-------- Decrease -------->	
2015					
Discount rate*	-1%	513,236	512,260	(191,551)	(167,256)
Mortality and morbidity rates	+/- 10% (adverse)	131,960	130,279	(105,080)	(81,971)
Lapse and surrender rates	+/- 10% (adverse)	26,014	25,986	(2,775)	(4,505)
Expenses	+10%	33,377	33,377	(22,935)	(17,971)

* Excludes impact on fixed income assets.
** The impact on net liabilities results in a corresponding, but opposite sign impact on profit before tax and equity.

44. INSURANCE RISK (CONTD.)

(B) General Insurance

(i) The table below shows the concentration of premium by type of contract.

	2016			2015		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Malaysia						
Motor	200,930	(7,481)	193,449	242,726	(8,124)	234,602
Fire	171,816	(99,182)	72,634	174,369	(86,630)	87,739
Marine, Aviation, Cargo and Transit	691,777	(677,867)	13,910	792,384	(776,359)	16,025
Miscellaneous	241,546	(112,149)	129,397	194,493	(54,254)	140,239
	1,306,069	(896,679)	409,390	1,403,972	(925,367)	478,605
Brunei						
Motor	2	(25)	(23)	575	(104)	471
Fire	56	(1,665)	(1,609)	2,595	(666)	1,929
Marine, Aviation, Cargo and Transit	-	(22)	(22)	268	(98)	170
Miscellaneous	444	(317)	127	3,067	(1,429)	1,638
	502	(2,029)	(1,527)	6,505	(2,297)	4,208
Singapore						
Fire	21,861	-	21,861	-	-	-
Total	1,328,432	(898,708)	429,724	1,410,477	(927,664)	482,813

44. INSURANCE RISK (CONTD.)

(B) General Insurance (Contd.)

(ii) Key Assumptions and Methods

The estimation of claims liabilities based on the RBC Framework requires all general insurance businesses to calculate booked claim provisions at the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The claim liabilities are estimated by using a range of standard actuarial claims projection methodologies, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence the ultimate costs of claims. Historical claims development is mainly analysed by accident period. Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by type of coverage.

The assumptions used in the projection methodologies, including future rates of claims inflation, are implicit in the historical 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 the future, for example, to reflect any one-off occurrences, changes in external or market factors such as the public perspective towards claiming, legislative changes, judicial decisions and economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. The inherent uncertainties in estimating liabilities can arise from a variety of factors such as the range and quality of data available, underlying assumptions made and random volatility in future experience. The uncertainties involved in estimating liabilities are allowed for in the reserving process explicitly by adding in a provision of risk margin for adverse deviation ("PRAD") for the best estimate of the cost of future claim payments.

The methodology used in deriving the ULAE is the same as last year. A loading is applied directly to the best estimates for loss and allocated loss adjustment expense to provide for the ULAE.

Unallocated loss adjustment expense	**2016**	**2015**
Unallocated loss adjustment expense to paid loss ratio	5%	5%

44. INSURANCE RISK (CONTD.)

(B) General Insurance (Contd.)

(iii) Sensitivity Analysis

Using the methods described above, the claims development is extrapolated for each accident year based on the observed development in earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historical claims.

Illustrative results of sensitivity testing for the general insurance fund's claim liabilities are set out below. The cumulative effect of all possible factors that affect the assumptions in the projection would ultimately impact the claims liabilities and, consequently, the observed net claims ratio for the financial year. Accordingly, the sensitivity analysis has been performed based on reasonably possible movements in the net claims ratio with all other assumptions or key factors held constant, showing the impact on gross and net claim liabilities, profit before tax and equity.

General Insurance	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
		<---------------- Increase/(decrease) --------------->			
2016					
Net Incurred Claims Ratio	+ 5%	74,463	23,706	(23,706)	(18,017)
	- 5%	(74,463)	(23,706)	23,706	18,017
2015					
Net Incurred Claims Ratio	+ 5%	73,607	26,120	(26,120)	(19,590)
	- 5%	(73,607)	(26,120)	26,120	19,590

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

44. INSURANCE RISK (CONTD.)

(B) General Insurance (Contd.)

(iv) Claims development table

The following tables show estimated incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting year, together with cumulative payments to date. The management of the Company believes the estimate of total claims outstanding as at the financial year end are adequate. The Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

44. INSURANCE RISK (CONTD.)

(B) General Insurance (Contd.)

(iv) Claims development table (Contd.)

Analysis of claims development - Gross Insurance Contract Liabilities

Accident year	Before 2010 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
		<----			As at 31 December			---->	
Estimate of gross cumulative claims:									
At the end of accident year		562,758	387,941	640,233	687,574	3,368,421	472,373	500,223	
1 year later		738,192	533,071	670,334	507,493	3,324,465	644,826		
2 years later		733,794	386,610	655,020	600,092	3,870,607			
3 years later		669,579	396,983	681,399	552,955				
4 years later		631,422	398,866	654,031					
5 years later		620,503	371,960						
6 years later		637,108							
Estimate of gross cumulative claims (A)		637,108	371,960	654,031	552,955	3,870,607	644,826	500,223	
Estimate of gross cumulative payments to date:									
At the end of accident year		141,508	121,264	229,494	167,692	1,120,319	117,553	115,349	
1 year later		324,251	247,258	359,755	307,101	1,383,292	382,244		
2 years later		399,692	283,406	472,739	408,804	1,774,084			
3 years later		503,397	306,870	531,619	483,555				
4 years later		511,782	350,548	554,919					
5 years later		594,059	350,223						
6 years later		595,499							
Gross cumulative payments (B)		595,499	350,223	554,919	483,555	1,774,084	382,244	115,349	
Gross outstanding claim liabilities (A) - (B)	86,444	41,609	21,736	99,112	69,400	2,096,524	262,582	384,874	3,062,280
Gross outstanding claim liabilities for Brunei and Treaty Inward									69,449
ULAE									15,100
Best estimate of gross claim liabilities									3,146,829
PRAD									290,944
Gross Insurance Claim Liabilities as at 31 December 2016									3,437,773

44. INSURANCE RISK (CONTD.)

(B) General Insurance (Contd.)

(iv) Claims development table (Contd.)

Analysis of claims development - Net of Reinsurance

Accident year	Before 2010 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
		<---------- As at 31 December						---------->	
Estimate of net cumulative claims:									
At the end of accident year		366,444	237,994	271,700	283,985	263,503	255,864	248,567	
1 year later		257,423	239,453	258,324	265,906	251,303	249,573		
2 years later		257,693	234,554	260,331	274,429	246,969			
3 years later		254,756	238,818	264,442	273,160				
4 years later		256,253	239,469	261,799					
5 years later		258,008	238,372						
6 years later		255,325							
Estimate of net cumulative claims (A)		255,325	238,372	261,799	273,160	246,969	249,573	248,567	
Estimate of net cumulative payments to date:									
At the end of accident year		129,148	104,838	113,841	131,720	113,052	105,240	109,745	
1 year later		215,845	197,855	211,743	224,674	195,128	197,502		
2 years later		239,697	220,615	239,069	244,820	215,245			
3 years later		247,450	229,267	247,803	255,638				
4 years later		249,705	231,826	251,671					
5 years later		250,289	232,884						
6 years later		250,916							
Net cumulative payments (B)		250,916	232,884	251,671	255,638	215,245	197,502	109,745	
Net outstanding claim liabilities (A) - (B)	4,057	4,409	5,488	10,128	17,521	31,724	52,071	138,822	264,220
Net outstanding claim liabilities for Brunei and Trealy Inward									67,639
ULAE									15,100
Best estimate of net claim liabilities									346,959
PRAD									41,654
Net Insurance Claim Liabilities as at 31 December 2016									388,613

44. INSURANCE RISK (CONTD.)

(B) General Insurance (Contd.)

(iv) Claims development table (Contd.)

Analysis of claims development - Gross insurance Contract Liabilities

Accident year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
		<---- As at 31 December ---->							
Estimate of gross cumulative claims:									
At the end of accident year		511,266	562,758	387,941	640,233	687,574	3,368,421	472,373	
1 year later		420,875	738,192	533,071	670,334	507,493	3,324,465		
2 years later		314,554	733,794	386,610	655,020	600,092			
3 years later		303,437	669,579	396,983	681,399				
4 years later		298,374	631,422	398,866					
5 years later		296,156	620,502						
6 years later		295,228							
Estimate of gross cumulative claims (A)		295,228	620,502	398,866	681,399	600,092	3,324,465	472,373	
Estimate of gross cumulative payments to date:									
At the end of accident year		137,944	141,508	121,264	229,494	167,692	1,120,319	117,553	
1 year later		229,309	324,251	247,258	359,755	307,101	1,383,292		
2 years later		273,022	399,692	283,406	472,739	408,804			
3 years later		285,531	503,397	306,870	531,619				
4 years later		287,957	511,782	350,548					
5 years later		288,669	594,059						
6 years later		289,641							
Gross cumulative payments (B)		289,641	594,059	350,548	531,619	408,804	1,383,292	117,553	
Gross outstanding claim liabilities (A) - (B)	102,586	5,587	26,443	48,318	149,780	191,288	1,941,172	354,820	2,819,994
Gross outstanding claim liabilities for Brunei and Treaty Inward									79,537
ULAE									15,774
Best estimate of gross claim liabilities									2,915,305
PRAD									436,600
Gross Insurance Claim Liabilities as at 31 December 2015									3,351,905

44. INSURANCE RISK (CONTD.)

(B) General Insurance (Contd.)

(iv) Claims development table (Contd.)

Analysis of claims development - Net of Reinsurance

Accident year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
		<----			As at 31 December			---->	
Estimate of net cumulative claims:									
At the end of accident year		351,437	366,444	237,994	271,700	283,985	263,503	255,864	
1 year later		226,824	257,423	239,453	258,324	265,906	251,303		
2 years later		216,933	257,693	234,554	260,331	274,429			
3 years later		216,002	254,756	238,818	264,442				
4 years later		213,716	256,253	239,469					
5 years later		212,961	258,008						
6 years later		212,380							
Estimate of net cumulative claims (A)		212,380	258,008	239,469	264,442	274,429	251,303	255,864	
Estimate of net cumulative payments to date:									
At the end of accident year		116,199	129,148	104,838	113,841	131,720	113,052	105,240	
1 year later		180,253	215,845	197,855	211,743	224,674	195,128		
2 years later		199,997	239,697	220,615	239,069	244,820			
3 years later		207,217	247,450	229,267	247,803				
4 years later		208,925	249,705	231,826					
5 years later		209,159	250,289						
6 years later		209,838							
Net cumulative payments (B)		209,838	250,289	231,826	247,803	244,820	195,128	105,240	
Net outstanding claim liabilities (A) - (B)	6,153	2,542	7,719	7,643	16,639	29,609	56,175	150,624	277,104
Net outstanding claim liabilities for Brunei and Treaty Inward									79,094
ULAE									15,775
Best estimate of net claim liabilities									371,973
PRAD									83,664
Net Insurance Claim Liabilities as at 31 December 2015									455,637

45. FINANCIAL RISKS

(i) Credit Risk

Credit risk refers to the risk of loss of principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms. It stems primarily from lending, underwriting, trading and investment activities from both on- and off-balance sheet transactions.

Credit or spread risk and ultimately default risk result from the intrinsic quality of the issuer of debt securities and the impact it has on the value of assets of these instruments. Changes in the level or in the volatility of both spreads as a result of changes in the underlying credit quality define the risk of investment default.

Credit risk arises when a borrower or counterparty is no longer able to pay their debt. The Company's exposure to credit risk arises mainly from fixed income investment activities.

The Company measures and manages credit risk following the philosophy and principles below:

(a) The Risk Management and Investment Management Department, actively aim to prevent undue concentration by ensuring its credit portfolio is diversified and marketable credit portfolio;
(b) The asset management research team adopts a prudent position in the selection of fixed income investments;
(c) The Risk Management Department establishes limits on maximum credit exposures. The credit limit for a counterparty is based on the counterparty's credit quality and aligned to the risk appetite; and
(d) The Risk Management Department uses Key Risk Indicators ("KRI") to alert the management on impending problems in a timely manner.

45. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Credit Exposure

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements. In respect of bifurcated derivatives relating to structured products categorised as AFS financial assets, the bifurcated derivatives are considered together with the host contract for the purposes of financial risk exposures and management.

	2016			2015		
	Insurance and Shareholder's Fund RM'000	Unit-Linked RM'000	Total RM'000	Insurance and Shareholder's Fund RM'000	Unit-Linked RM'000	Total RM'000
AFS financial assets						
Malaysian government paper	185,339	-	185,339	239,014	-	239,014
Debt securities, structured products and NCDs	1,115,053	-	1,115,053	1,020,122	-	1,020,122
Equity securities	922,274	-	922,274	1,181,554	-	1,181,554
Unit and property trust funds	50,039	-	50,039	50,056	-	50,056
Financial assets at FVTPL						
(i) **Designated upon initial recognition**						
Malaysian government paper	238,233	-	238,233	130,330	-	130,330
Debt securities, structured products and NCDs	6,270,369	-	6,270,369	5,664,757	-	5,664,757
(ii) **HFT**						
Malaysian government paper	-	59,336	59,336	-	85,563	85,563
Debt securities, structured products and NCDs	-	277,113	277,113	-	776,964	776,964
Equity securities	-	677,761	677,761	-	723,530	723,530
Unit and property trust funds	-	19,805	19,805	-	13,571	13,571
Redeemable loan stocks	-	-	-		7	7
LAR						
Fixed and call deposits	1,312,350	135,249	1,447,599	1,685,051	124,182	1,809,233
Financing receivables	248,266	-	248,266	255,718	-	255,718
Reinsurance assets	3,315,144	-	3,315,144	3,272,164	-	3,272,164
Insurance receivables	264,854	-	264,854	324,615	-	324,615
Other receivables	206,260	6,765	213,025	260,428	-	260,428
Derivative assets	-	-	-	2,610	-	2,610
Cash and bank balances	110,415	1,307	111,722	74,656	-	74,656
	14,238,596	1,177,336	15,415,932	14,161,075	1,723,817	15,884,892

45. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Credit Exposure by rating

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

	Neither past-due nor impaired						
2016	**^A to AAA RM'000**	**^B to BBB RM'000**	**^Not Rated RM'000**	**Unit-linked RM'000**	**Past-due or impaired RM'000**	**Not subject to credit risk RM'000**	**Total RM'000**
AFS financial assets							
Malaysian government papers	-	-	185,339	-	-	-	185,339
Debt securities, structured products and NCDs	723,700	-	391,353	-	-	-	1,115,053
Equity securities	-	-	-	-	-	922,274	922,274
Unit and property trust funds	-	-	-	-	-	50,039	50,039
Financial assets at FVTPL							
(i) Designated upon initial recognition							
Malaysian government papers	-	-	238,233	-	-	-	238,233
Debt securities, structured products and NCDs	4,621,946	-	1,648,423	-	-	-	6,270,369
(ii) **HFT**							
Malaysian government papers	-	-	-	59,336	-	-	59,336
Debt securities, structured products and NCDs	-	-	-	277,113	-	-	277,113
Equity securities	-	-	-	677,761	-	-	677,761
Unit and property trust funds	-	-	-	19,805	-	-	19,805
Redeemable loan stocks	-	-	-	-	-	-	-
LAR							
Fixed and call deposits	1,312,350	-	-	135,249	-	-	1,447,599
Financing receivables	-	-	246,654	-	1,612	-	248,266
Reinsurance assets	1,815,490	77,973	1,180,935	-	-	240,746	3,315,144
Insurance receivables^^	5,006	5	223,523	-	36,320	-	264,854
Other receivables	88,462	-	4,571	6,765	-	113,227	213,025
Derivative assets	-	-	-	-	-	-	-
Cash and bank balances	109,791	-	624	1,307	-	-	111,722
	8,676,745	77,978	4,119,655	1,177,336	37,932	1,326,286	15,415,932

^ Based on ratings assigned by external rating agencies including RAM and MARC.

^^ Insurance receivables from agents/insurers/reinsurers licensed under the Financial Services Act 2013 are classified under the "not rated" category.

Financial investments such as Malaysian Government Papers and certain corporate debt securities are classified under the "not rated" category as these investments are issued by the government or guaranteed by the government and which are exempted from the requirement to be rated by rating agencies.

45. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Credit Exposure by rating (Contd.)

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

	Neither past-due nor impaired						
	^A to AAA RM'000	^B to BBB RM'000	^Not Rated RM'000	Unit-linked RM'000	Past-due or impaired RM'000	Not subject to credit risk RM'000	Total RM'000
2015							
AFS financial assets							
Malaysian government papers	-	-	239,014	-	-	-	239,014
Debt securities, structured products and NCDs	813,805	-	206,317	-	-	-	1,020,122
Equity securities	-	-	-	-	-	1,181,554	1,181,554
Unit and property trust funds	-	-	-	-	-	50,056	50,056
Financial assets at FVTPL							
(i) Designated upon initial recognition							
Malaysian government papers	130,330	-			-	-	130,330
Debt securities, structured products and NCDs	4,278,084		1,386,673		-	-	5,664,757
(ii) HFT							
Malaysian government papers	-	-	-	85,563	-	-	85,563
Debt securities, structured products and NCDs	-	-	-	776,964	-	-	776,964
Equity securities	-	-	-	723,530	-	-	723,530
Unit and property trust funds	-	-	-	13,571	-	-	13,571
Redeemable loan stocks	-	-	-	7	-	-	7
LAR							
Fixed and call deposits	1,685,051	-	-	124,182	-	-	1,809,233
Financing receivables	-	-	254,347	-	1,371	-	255,718
Reinsurance assets	361,278	22,938	2,530,768	-	-	357,180	3,272,164
Insurance receivables^^	6,878	65	278,452	-	39,220	-	324,615
Other receivables	60,984	1,968	41,843	22,923	-	132,710	260,428
Derivative assets	-	-	-	2,610	-	-	2,610
Cash and bank balances	63,612	-	10,955	89	-	-	74,656
	7,400,022	24,971	4,948,369	1,749,439	40,591	1,721,500	15,884,892

^ Based on ratings assigned by external rating agencies including RAM and MARC.
^^ Insurance receivables from agents/insurers/reinsurers licensed under the Financial Services Act 2013 are classified under the "not rated" category.

Financial investments such as Malaysian Government Papers and certain corporate debt securities are classified under the "not rated" category as these investments are issued by the government or guaranteed by the government and which are exempted from the requirement to be rated by rating agencies.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

45. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Credit Quality of Financial Assets

	Past due but not impaired				Impaired			
	< 90 days RM'000	91 to 180 days RM'000	> 180 days RM'000	Total RM'000	Original carrying amount RM'000	Allowance for impairment RM'000	Net carrying amount RM'000	Total RM'000
2016								
Financing receivables	48	48	1,516	1,612	1,481	(1,481)	-	1,612
Reinsurance assets	-	-	-	-	529	(529)	-	-
Insurance receivables	33,899	1,762	659	36,320	9,917	(9,917)	-	36,320
Other receivables	-	-	-	-	367	(367)	-	-
	33,947	1,810	2,175	37,932	12,294	(12,294)	-	37,932
2015								
Financing receivables	45	45	1,281	1,371	2,252	(2,252)	-	1,371
Reinsurance assets	-	-	-	-	3,423	(3,423)	-	-
Insurance receivables	30,356	4,512	4,352	39,220	19,324	(19,324)	-	39,220
Other receivables	-	-	-	-	403	(403)	-	-
	30,401	4,557	5,633	40,591	25,402	(25,402)	-	40,591

45. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Reconciliation of allowance account

Movements in allowances for impairment losses for financial assets are as follows:

	Financing receivables RM'000 (Note 11)	Reinsurance assets RM'000 (Note 12)	Insurance receivables RM'000 (Note 13)	Other receivables RM'000 (Note 14)	Total RM'000
2016					
Individual allowance					
At 1 January 2016	2,252	3,423	10,677	403	16,755
Allowance made/(reversed) during the year	(771)	(2,894)	(3,291)	(36)	(6,992)
At 31 December 2016	1,481	529	7,386	367	9,763
Collective allowance					
At 1 January 2016	-	-	8,647	-	8,647
Allowance made during the year	-	-	(6,116)	-	(6,116)
At 31 December 2016	-	-	2,531	-	2,531
Total as at 31 December 2016	1,481	529	9,917	367	12,294

45. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Reconciliation of allowance account (Contd.)

	Financing receivables RM'000 (Note 11)	Reinsurance assets RM'000 (Note 12)	Insurance receivables RM'000 (Note 13)	Other receivables RM'000 (Note 14)	Total RM'000
2015					
Individual allowance					
At 1 January 2015	2,385	1,189	18,474	406	22,454
Allowance made/(reversed) during the year	(133)	2,234	(7,802)	60	(5,641)
Write-offs	-	-	-	(63)	(63)
Translation differences	-	-	5	-	5
At 31 December 2015	2,252	3,423	10,677	403	16,755
Collective allowance					
At 1 January 2015	-	-	6,671	-	6,671
Allowance made during the year	-	-	1,976	-	1,976
At 31 December 2015	-	-	8,647	-	8,647
Total as at 31 December 2015	2,252	3,423	19,324	403	25,402

45. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Financial Effects of Collateral Held

The main types of collateral obtained by the Company to mitigate credit risk are as follows:

Type of financing receivables	Type of collaterals
Policy/automatic premium loans	Cash surrender value of policies
Corporate loans	Charges over properties being financed and bank guarantees
Secured staff/non-staff loans	Charges over residential properties and motor vehicles

The financial effect of collateral, which represents the quantification of the extent to which collateral and other credit enhancements mitigates credit risk, held for financing receivables is 98% as at 31 December 2016 (2015: 96%). The financing receivables amounting to RM240,898,166 as at 31 December 2016 (2015: RM248,833,709) are collaterised.

The remaining balance of financing receivables are not collateralised.

(ii) Liquidity Risk

Liquidity risk is the risk of an adverse impact to the Company's financial condition or overall safety and soundness that could arise from its inability (or perceived inability) or unexpected higher cost to meet its obligations.

The objective of liquidity risk management is to have sufficient cash availability to meet policyholders' liabilities, such as surrenders, withdrawal, claims and the maturity benefits, and other contract holders without endangering the business financials due to constraints on liquidating assets.

45. FINANCIAL RISKS (CONTD.)

(ii) Liquidity Risk (Contd.)

The Company measures and manages liquidity risk following the philosophies and principles below:

(a) The Risk Management and Investment Management Department are actively monitoring the cashflows associated and derived from assets and liabilities of the Company through the ALCO platform; and

(b) The Investment Management Department ensures that the established investment limits allow for reasonable liquidity requirements at all times.

Maturity Profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities.

Premium liabilities and the reinsurers' share of premium liabilities have been excluded from the analyses as there are no contractual obligations to make payments on these liabilities.

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

45. FINANCIAL RISKS (CONTD.)

(ii) Liquidity Risk (Contd.)

Maturity Profiles (Contd.)

2016	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Financial assets:						
AFS	2,272,705	62,668	678,001	1,349,089	972,313	3,062,071
FVTPL	7,542,617	661,312	2,801,400	7,349,224	697,566	11,509,502
LAR	1,447,599	1,447,599	-	-	-	1,447,599
Financing receivables	248,266	218,355	12,729	21,815	-	252,899
Reinsurance assets*	3,074,398	2,112,353	928,712	37,936	-	3,079,001
Insurance receivables	264,854	264,854	-	-	-	264,854
Other receivables	213,025	213,025	-	-	-	213,025
Derivative assets	-		-	-	-	-
Cash and bank balances	111,722	111,722	-	-	-	111,722
Total assets	15,175,186	5,091,888	4,420,842	8,758,064	1,669,879	19,940,673
Insurance contract liabilities*	11,353,561	4,252,102	2,159,244	9,896,028	-	16,307,374
Subordinated obligation	500,000	20,650	82,600	541,300	-	644,550
Derivative liabilities	56,603	16,247	40,356		-	56,603
Insurance payables	299,694	299,694			-	299,694
Other payables	333,296	333,296			-	333,296
Interest payable on subordinated obligation	10,120	10,120			-	10,120
Total liabilities	12,553,274	4,932,109	2,282,200	10,437,328	-	17,651,637

45. FINANCIAL RISKS (CONTD.)

(ii) Liquidity Risk (Contd.)

Maturity Profiles (Contd.)

2015	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Financial assets:						
AFS	2,490,746	159,850	576,090	987,664	1,231,610	2,955,214
FVTPL	7,394,722	513,676	2,799,482	5,301,717	737,101	9,351,976
LAR	1,809,233	1,809,233	-	-	-	1,809,233
Financing receivables	255,718	225,758	13,897	24,491	-	264,146
Reinsurance assets*	2,914,984	826,448	439,717	1,656,915	-	2,923,080
Insurance receivables	324,615	324,615	-	-	-	324,615
Other receivables	260,428	260,428	-	-	-	260,428
Derivative assets	2,610	2,610	-	-	-	2,610
Cash and bank balances	74,656	74,656	-	-	-	74,656
Total financial and insurance assets	15,527,712	4,197,274	3,829,186	7,970,787	1,968,711	17,965,958
Insurance contract liabilities*	11,792,779	3,479,978	2,069,344	11,100,774	-	16,650,096
Subordinated obligation	500,000	20,650	82,600	541,300	-	644,550
Derivative liabilities	59,283	8,835	50,448	-	-	59,283
Insurance payables	356,098	356,098	-	-	-	356,098
Other payables	292,032	292,032	-	-	-	292,032
Interest payable on subordinated obligation	10,127	10,127	-	-	-	10,127
Total financial and insurance liabilities	13,010,319	4,167,720	2,202,392	11,642,074	-	18,012,186

^ Excluding equities securities and unit and property trust funds
* Excluding premium liabilities

45. FINANCIAL RISKS (CONTD.)

(iii) Market Risk

Market risk is the risk of loss or of adverse change in the Company's financial situation resulting, directly or indirectly, from fluctuations or volatility of market prices of financial instruments

Market risk comprises three (3) types of risk:

(a) Foreign exchange rates (currency risk);
(b) Market interest rates/profit yields (interest rate risk); and
(c) Equity price risk

The Company has three main key features in respect of its market risk management practices and policies:

(a) A Company-wide risk policy exists which sets out the evaluation and determination of components of market risk for the Company. Compliance with the policy is monitored and reported monthly to the RMC and exposures and breaches are reported as soon as practicable;

(b) The Company's policies on asset allocation, portfolio limit structure and diversification benchmarks have been set in line with the Company's risk management policy after taking cognisance of regulatory requirements in respect of maintenance of assets and solvency.

(c) Strict controls exist over derivative transactions; such transactions are only permitted for hedging purposes and not for speculative purposes.

The Company also issues investment-linked policies in a number of its products. In the investment-linked business, the policyholder bears the investment risk on the assets held in the investment-linked funds as the benefits are directly linked to the value of the assets in the funds.

The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of the assets in the funds. Accordingly, the sensitivity analyses disclosed for each component of market risk in the following pages do not include analyses on the impact of such risks on the investment-linked funds.

45. FINANCIAL RISKS (CONTD.)

(iii) Market Risk (Contd.)

(a) Currency Risk

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

The Company's primary transactions are carried out in RM and its exposure to foreign exchange risk arises principally with respect to Singapore Dollar, Brunei Dollar and US Dollar.

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act 2013, and hence, primarily denominated in the same currency (the local "RM") as its insurance and investment contract liabilities.

The Company's main foreign exchange risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year. Accordingly, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

(b) Interest Rate Risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

Interest rate risks arise from exposures to interest rate related assets and liabilities. It is also known as asset-liability mismatch ("ALM") risk. It is mainly driven by the volatility of future cash flows. The quantum is also proxied to the duration mismatch between the assets and the liabilities of the Company.

45. FINANCIAL RISKS (CONTD.)

(iii) Market Risk (Contd.)

(b) Interest Rate Risk (Contd.)

The Company measures and manages the interest rate risk mainly based on the following three philosophies and principles.

(a) Actively aim to match the liability duration with the asset duration, without compromising credit quality;
(b) Set the benchmark for asset duration in line with risk appetite; and
(c) Use Key Risk Indicators ("KRI") to alert the organisation to impending problems in a timely manner.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant.

Changes in variables	2016 Impact on profit before tax RM'000	2016 Impact on equity* RM'000	2015 Impact on profit before tax RM'000	2015 Impact on equity* RM'000
	(Decrease)/increase		(Decrease)/increase	
+100 basis points	(239,912)	(258,630)	(205,980)	(214,453)
-100 basis points	239,912	258,630	205,980	214,453

* Impact on equity is after tax at the statutory tax rate

45. FINANCIAL RISKS (CONTD.)

(iii) Market Risk (Contd.)

(c) Equity Price Risk

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

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, which principally comprise all investment securities other than those held in the investment-linked funds.

The Company's risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector, and market, having regard also to such limits stipulated by BNM. A cut loss mechanism is also put in place to minimise the loss that may incur over time.

The analysis below is performed for reasonably possible movements in key variables with all other variables being held constant.

Market Index	Changes in variables	2016 Impact on profit before tax RM'000	2016 Impact on equity* RM'000	2015 Impact on profit before tax RM'000	2015 Impact on equity* RM'000
		(Decrease)/increase		(Decrease)/increase	
Bursa Malaysia	+10%	-	44,463	-	59,943
	-10%	-	(44,463)	-	(59,943)

* Impact on equity is after tax at the statutory tax rate

45. FINANCIAL RISKS (CONTD.)

(iv) Concentration Risk

Concentration risk refers to the risk associated with the potential losses that are substantial enough to threaten the financial condition of the Business and its core operations causing material adverse impact to the earnings, capital or total assets. Risk concentration can materialise from excessive exposures to single counterparty and persons connected to it, a particular instrument or a particular market segment / sector.

This covers exposure to too high concentration in any type of Market Risk, Credit Risk or Liquidity Risk. Concentration risk relates to non-diversified portfolios and arises due to high exposure to single companies or an aggregate of exposures to a number of positively correlated companies for example within one sector or region.

The Company's risk policy requires it to manage such risks by setting and monitoring diversification plans and limits on investments in each country, sector, ratings, market and issuer, having regard also to such limits stipulated by BNM.

The Company complied with BNM stipulated limits during the financial year and had no significant concentration risk.

46. OPERATIONAL RISK

Operational Risk Management ("ORM") is the discipline of systematically identifying the causes of failures in the organisation's day-to-day operations, assessing the risk of loss and taking the appropriate action to minimise the impact of such loss.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Some examples of operational incidents include:

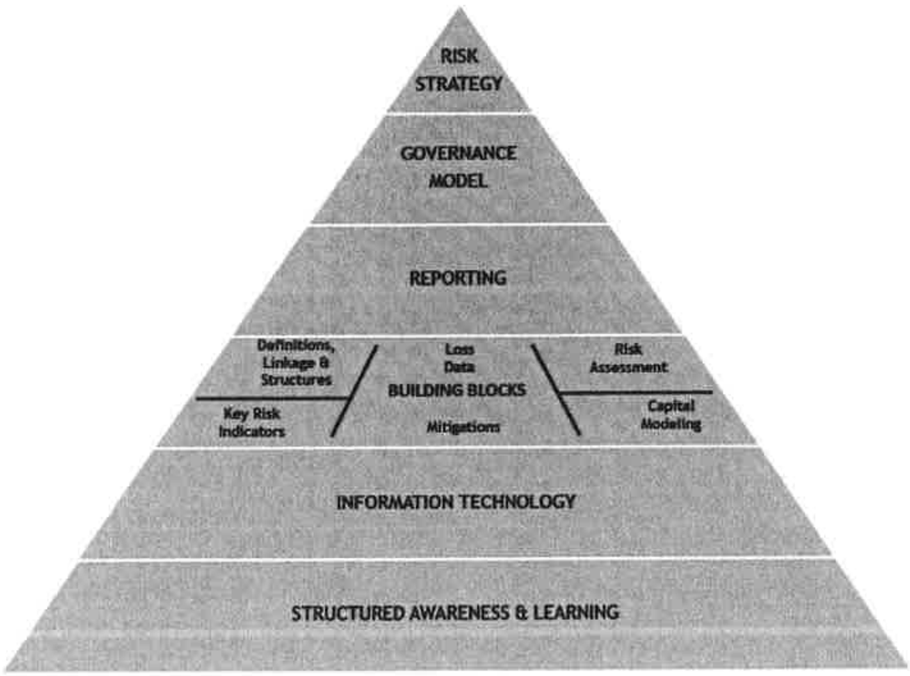
- Misappropriation of investments, due to fraud, an illegal act, malicious intent, spite, terrorism;
- Disruption or failure of IT systems and infrastructure, which may be used for monitoring, execution, administration;
- Inaccurate calculations due to data quality or errors, methodology flaws, miscalculations; and
- Inaccurate or incomplete controls.

46. OPERATIONAL RISK (CONTD.)

The table below outlines the definitions of the four (4) casual categories of operational risk:

Causal Categories	Definition
People	Risks resulting from staff defaulting expected behavious or the organisation being ineffective/inefficient in the management of its human capital.
Processes	Risks resulting from inadequate/failed internal business processes or transactions process flows.
Systems	Risk resulting from inadequate or defaulting IT/communication systems, or the unavailability or integrity of data.
External Events	Risks resulting from events and actions from outside the organisation's immediate control having a negative impact on the business.

The methodology and components adopted in operational risk are summarised in the diagram below:



Enterprise Risk

Enterprise risk covers the external and internal factors that can impact the Company's ability to meet its current business plan for achieving ongoing growth and value creation. It includes changes in the external environment including regulatory, economic environment, competitive landscape or the way people (customers or staff) behave and can also be due to poor internal decision making and management or due to loss of reputation.

47. FAIR VALUE MEASUREMENTS

This disclosure provides information on fair value measurements for both financial instruments and non-financial assets and liabilities and is structured as follows:

(a) Valuation principles;
(b) Valuation techniques;
(c) Fair value measurements and classification within the fair value hierarchy;
(d) Transfers between Level 1 and Level 2 in the fair value hierarchy;
(e) Movements of Level 3 instruments; and
(f) Sensitivity of fair value measurements to changes in unobservable input assumptions.

(a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Group determines the fair value by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value. The Company has also established a framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

Valuation adjustment is also an integral part of the valuation process. Valuation adjustment is to reflect the uncertainty in valuations generally for products that are less standardised, less frequently traded and more complex in nature. In making a valuation adjustment, the Company follows methodologies that consider factors such as liquidity, bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

The Company continuously enhances its design, validation methodologies and processes to ensure the valuations are reflective and periodic reviews are performed to ensure the model remains suitable for its intended use.

47. FAIR VALUE MEASUREMENTS (CONTD.)

(a) Valuation principles (Contd.)

The levels of the fair value hierarchy as defined by the accounting standards are an indication of the observability of prices or valuation input. It can be classified into the following hierarchies/levels:

- Level 1 : Active Market – Quoted price

  Refers to financial instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices which represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include listed derivatives, quoted equities and unit and property trust funds traded on an exchange.

- Level 2 : No Active Market – Valuation techniques using observable input

  Refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

  Examples of level 2 financial instruments include corporate and government bonds, less liquid equities and over-the-counter ("OTC") derivatives.

- Level 3 : No Active Market – Valuation techniques using unobservable input

  Refers to financial instruments where fair values are measured using unobservable market inputs. The valuation technique is consistent with level 2. The chosen valuation technique incorporates management's assumptions and data.

  Examples of level 3 instruments include corporate bonds in illiquid markets, private equity investments and investment properties.

(b) Valuation techniques

(i) Cash and Cash Equivalents and Other Receivables/Payables

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

(ii) Financing Receivables

Financing receivables are granted at interest rates which are comparable with the rates offered on similar instruments in the market and to counter parties with similar credit profiles. Accordingly, the carrying amounts of the financing receivables approximate their fair values as the impact of discounting is not material.

47. FAIR VALUE MEASUREMENTS (CONTD.)

(b) Valuation techniques (Contd.)

(iii) Insurance Receivables and Payables

The carrying amounts are measured at amortised cost in accordance with the accounting policies as disclosed in Note 2.2(x) and 2.2(xix). The carrying amounts approximate fair values due to the short-term maturity of these financial instruments.

(iv) Investments

Investments have been accounted for in accordance with the accounting policies as disclosed in Note 2.2(vi) and 2.2(viii)(a). The carrying amounts and fair values of investments are disclosed in Note 9 to the financial statements.

(v) Investment properties

The fair values of investment properties are determined by an accredited independent valuer using a variety of approaches such as comparison method and income capitalisation approach. Under the comparison method, fair value is estimated by considering the selling price per square foot ("psf") of comparable investment properties sold adjusted for location, quality and finishes of the building, design and size of the building, title conditions, market trends and time factor. Income capitalisation approach considers the capitalisation of net income of the investment properties such as the gross rental less current maintenance expenses and outgoings. This process may consider the relationships including yield and discount rates.

47. FAIR VALUE MEASUREMENTS (CONTD.)

(c) Fair value meaurements and classification within the fair value hierarchy

	Valuation techniques used:			
	Level 1	Level 2	Level 3	
2016	Quoted market prices RM'000	Using Observable inputs RM'000	Using Significant unobservable inputs RM'000	Total RM'000
Assets				
Investment properties	-	-	677,194	677,194
AFS financial assets				
Equity securities	870,023	-	-	870,023
Malaysian government papers	-	185,339	-	185,339
Debt securities, structured products and NCDs	-	1,042,388	72,665	1,115,053
Unit and property trust funds	50,039	-	-	50,039
Financial assets at FVTPL				
(i) Designated upon initial recognition				
Malaysian government papers	-	238,233	-	238,233
Debt securities, structured products and NCDs	-	6,208,469	61,900	6,270,369
(ii) HFT				
Equity securities	677,761	-	-	677,761
Malaysian government papers	-	59,336	-	59,336
Debt securities, structured products and NCDs	-	277,113	-	277,113
Unit and property trust funds	19,805	-	-	19,805
Derivative assets	-	-	-	-
Total assets	1,617,628	8,010,878	811,759	10,440,265
Liabilities				
Derivative liabilities	-	(56,603)	-	(56,603)
Total liabilities	-	(56,603)	-	(56,603)

47. FAIR VALUE MEASUREMENTS (CONTD.)

(c) Fair value meaurements and classification within the fair value hierarchy (Contd.)

	Valuation techniques used:			
	Level 1	Level 2	Level 3	
2015	**Quoted market prices RM'000**	**Using Observable inputs RM'000**	**Using Significant unobservable inputs RM'000**	**Total RM'000**
Assets				
Investment properties	-	-	668,244	668,244
AFS financial assets				
Equity securities	1,129,303	-	-	1,129,303
Malaysian government papers	-	239,014	-	239,014
Debt securities, structured products and NCDs	-	946,881	73,241	1,020,122
Unit and property trust funds	50,056	-	-	50,056
Financial assets at FVTPL				
(i) Designated upon initial recognition				
Malaysian government papers	-	130,330	-	130,330
Debt securities, structured products and NCDs	-	5,602,366	62,391	5,664,757
(ii) HFT				
Equity securities	723,530	-	-	723,530
Malaysian government papers	-	85,563	-	85,563
Debt securities, structured products and NCDs	-	776,964	-	776,964
Redeemable loan stock	7	-	-	7
Unit and property trust funds	13,571	-	-	13,571
Derivative assets	-	2,610	-	2,610
Total assets	1,916,467	7,783,728	803,876	10,504,071
Liabilities				
Derivative liabilities	-	(59,283)	-	(59,283)
Total liabilities	-	(59,283)	-	(59,283)

Unquoted equities securities of RM52,251,154 (2015: RM52,251,154) as disclosed in Note 9 and IPUC of RM76,691,493 (2015: RM45,656,616) as disclosed in Note 4 are not included in the above analysis as they are carried at cost.

47. FAIR VALUE MEASUREMENTS (CONTD.)

(d) Transfer between Level 1 and Level 2 in the fair value hierarchy

Assets and liabilities of the Company are recognised in the financial statements on a recurring basis. The Company determine whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1 and Level 2 for the Company during the financial year ended 31 December 2016.

(e) Movements of Level 3 instruments

	Investment Properties	Financial instruments measured at fair value	
2016		**AFS**	**Designated at FVTPL**
	RM'000	**RM'000**	**RM'000**
At 1 January 2016	668,244	73,241	62,391
Recognised in the income statement:			
Realised gain	-	335	285
Fair value gain	8,950	-	326
Recognised in other comprehensive income as fair value gain		382	
Sales	-	(1,293)	(1,102)
At 31 December 2016	677,194	72,665	61,900
Total gains recognised in income statement for financial instruments measured at fair value at the end of the reporting period	8,950	335	611
Total gains recognised in other comprehensive income for financial instruments measured at fair value at the end of reporting period	-	382	-

47. FAIR VALUE MEASUREMENTS (CONTD.)

(e) Movements of Level 3 instruments (Contd.)

	Investment Properties	Financial instruments measured at fair value	
		AFS	Designated at FVTPL
2015	**RM'000**	**RM'000**	**RM'000**
At 1 January 2015	566,384	-	-
Recognised in the income statement:			
Realised gain	-	301	255
Fair value gain	101,860	-	1,487
Recognised in other comprehensive income as fair value gain	-	1,746	-
Sales	-	(1,098)	(935)
Settlement	-	-	-
Transfer into Level 3	-	72,292	61,584
At 31 December 2015	668,244	73,241	62,391
Total gains recognised in income statement for financial instruments measured at fair value at the end of the reporting period	-	301	255
Total gains recognised in other comprehensive income for financial instruments measured at fair value at the end of reporting period	-	1,746	-

(f) Sensitivity of fair value measurements to changes in unobservable input assumptions

The Company's exposure to financial instruments measured with valuation techniques using significant unobservable inputs comprised a small number of financial instruments which constitute an insignificant component of the Company's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

Recent sale transactions transacted in the real estate market would result in a significant change of estimated fair value for investment properties.

47. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTD.)

(f) Sensitivity of fair value measurements to changes in unobservable input assumptions (Contd.)

All investment properties of the Company carried at fair values were classified under Level 3. The valuation of investment properties were performed by an accredited independent valuer using a variety of approaches such as the comparison method and the income capitalisation approach. Under the comparison method, fair value is estimated by considering the selling price per square foot ("psf") of comparable investment properties sold, adjusted for location, quality and finishes of the building, design and size of the building, title conditions, market trends and time factor. The income capitalisation approach considers the capitalisation of net income of the investment properties such as the gross rental less current maintenance expenses and outgoings. This process also considers the relationships including yield and discount rates. Recent transactions transacted in the market resulting in an increase in these inputs, would result in a significant increase in the estimated fair values of the investment properties.

48. REGULATORY CAPITAL REQUIREMENT

The capital structure of the Company as at 31 December 2016 and 31 December 2015, as prescribed under the RBC Framework, are provided below:

	2016 RM'000	2015 RM'000
Eligible Tier 1 Capital		
Share capital (paid up)	152,151	152,151
Reserves, including retained earnings	4,713,291	4,374,043
	4,865,442	4,526,194
Tier 2 Capital		
Revaluation reserve	11,647	11,647
Available-for-sale reserves	70,969	98,558
Subordinated term debts	500,000	500,000
Currency translation reserve	14,843	13,565
	597,459	623,770
Amount deducted from Capital	(96,789)	(88,156)
Total Capital Available	5,366,112	5,139,985

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

49. INSURANCE FUNDS

STATEMENT OF FINANCIAL POSITION BY FUNDS

	Company		Shareholder's and General Fund		Life Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Assets:						
Property, plant and equipment	112,942	112,897	50,418	57,780	62,524	55,117
Investment properties	753,885	713,901	95,344	95,294	658,541	618,607
Prepaid land lease payments	18,964	19,267	7,359	9,654	11,605	9,613
Intangible assets	61,789	47,671	39,407	28,663	22,382	19,008
Investment in associate	152	152	152	152	-	-
Investments	11,262,921	11,694,701	1,968,704	2,020,700	9,294,217	9,674,001
Financing receivables	248,266	255,718	34,925	7,736	213,341	247,982
Reinsurance assets	3,315,144	3,272,164	3,289,377	3,250,025	25,767	22,139
Insurance receivables	264,854	324,615	244,113	285,673	20,741	38,942
Other receivables	213,025	260,428	76,318	101,965	136,707	158,463
Derivative assets	-	2,610	-	-	-	2,610
Current tax assets	51,545	30,013	43,042	63,191	8,503	(33,178)
Cash and bank balances	111,722	74,656	38,434	32,954	73,288	41,702
	16,415,209	16,808,793	5,887,593	5,953,787	10,527,616	10,855,006
Assets classified as held for sale (Note 16)	-	787	-	787	-	-
Total Assets	16,415,209	16,809,580	5,887,593	5,954,574	10,527,616	10,855,006

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

49. INSURANCE FUNDS (CONTD.)

STATEMENT OF FINANCIAL POSITION BY FUNDS (CONTD.)

	Total		Shareholder's and General Fund		Life Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Equity and liabilities:						
Share capital	152,151	152,151	152,151	152,151	-	-
Reserves	2,696,740	2,543,114	2,696,740	2,543,114	-	-
	2,848,891	2,695,265	2,848,891	2,695,265	-	-
Insurance contract liabilities	11,780,468	12,380,520	3,864,680	3,939,646	7,915,788	8,440,874
Subordinated obligation	500,000	500,000	500,000	500,000	-	-
Derivative liabilities	56,603	59,283	-	6,032	56,603	53,251
Deferred tax liabilities, net	586,137	516,255	557,963	491,730	28,174	24,525
Insurance payables	299,694	356,098	289,000	327,376	10,694	28,722
Other payables[1]	333,296	292,032	(2,183,061)	(2,015,602)	2,516,357	2,307,634
Interest payable for subordinated obligation	10,120	10,127	10,120	10,127	-	-
Total Liabilities	13,566,318	14,114,315	3,038,702	3,259,309	10,527,616	10,855,006
Total equity and liabilities	16,415,209	16,809,580	5,887,593	5,954,574	10,527,616	10,855,006
Inter fund balances	-	-	(2,264,185)	(2,082,100)	2,264,185	2,082,100

[1] - Included in other payables are amounts due to the life, general and investment-linked funds which are unsecured, not subject to any interest elements and are repayable on demand.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

49. INSURANCE FUNDS (CONTD.)

INCOME STATEMENT/REVENUE ACCOUNT BY FUNDS

	Company		Shareholder's Fund		General Fund		Life Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Operating revenue	2,933,398	3,022,093	55,355	57,130	1,361,547	1,479,833	1,516,496	1,485,130
Gross earned premiums	2,564,001	2,502,495	-	-	1,489,266	1,472,132	1,074,735	1,030,363
Earned premiums ceded to reinsurers	(1,036,675)	(974,723)	-	-	(1,015,142)	(949,740)	(21,533)	(24,983)
Net earned premiums	1,527,326	1,527,772	-	-	474,124	522,392	1,053,202	1,005,380
Fee and commission income	76,187	48,040	-	-	73,932	44,334	2,255	3,706
Investment income	530,231	541,925	55,355	57,130	33,114	30,028	441,762	454,767
Realised gains	92,566	118,046	2,250	14,021	32,277	9,736	58,039	94,289
Fair value (losses)/gains	37,282	(36,251)	(1,732)	45,984	5,989	(5,721)	33,025	(76,514)
Other operating (expenses)/income, net^	(2,295)	(43,961)	(9,001)	199	8,356	4,358	(3,877)	(48,518)
Other revenue	733,971	627,799	46,872	117,334	153,668	82,735	531,204	427,730
Gross benefits and claims paid^	(2,539,603)	(2,770,851)	-	-	(889,062)	(686,003)	(1,648,314)	(2,084,848)
Claims ceded to reinsurers	654,117	470,429	-	-	636,987	453,972	17,130	16,457
Gross change in contract liabilities	410,421	1,796,500	-	-	(85,868)	745,544	496,289	1,050,956
Change in contract liabilities ceded to reinsurers	156,520	(800,234)	-	-	152,892	(796,507)	3,628	(3,727)
Net benefits and claims	(1,318,545)	(1,304,156)	-	-	(185,051)	(282,994)	(1,131,267)	(1,021,162)
Management expenses	(269,797)	(263,577)	(10,772)	(11,876)	(144,998)	(141,492)	(114,027)	(110,209)
Fee and commission expenses	(171,964)	(156,763)	-	-	(93,413)	(85,058)	(78,551)	(71,705)
Interest on subordinated obligation	(20,643)	(20,650)	(20,643)	(20,650)	-	-	-	-
Taxation borned by policyholders	(36,461)	(24,346)	-	-	-	-	(36,461)	(24,346)
Other expenses	(498,865)	(465,336)	(31,415)	(32,526)	(238,411)	(226,550)	(229,039)	(206,260)
	443,887	386,079	15,457	84,808	204,330	95,583	224,100	205,688
Surplus transfer from:								
- General Funds	-	-	156,699	67,986	(156,699)	(67,986)	-	-
- Life Par Funds	-	-	(733)	10,542	-	-	733	(10,542)
- Life Non-Par Funds	-	-	224,833	195,146	-	-	(224,833)	(195,146)
Profit before tax from continuing operations	443,887	386,079	396,256	358,482	47,631	27,597	-	-
Taxation	(93,980)	(103,128)	(46,349)	(74,526)	(47,631)	(28,602)	-	-
Net profit for the year from continuing operations	349,907	282,951	349,907	283,956	-	(1,005)	-	-
Net profit for the year from discontinued operation	-	1,005	-	-	-	1,005	-	-
Net profit for the year	349,907	283,956	349,907	283,956	-	-	-	-

Note : ^The current 2016 figures at company level have taken into consideration an inter fund elimination of RM2,227,074

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

49. INSURANCE FUNDS (CONTD.)

STATEMENT OF CASH FLOWS BY FUNDS

	Company		Shareholder's Fund		General Fund		Life Fund	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from:								
Operating activities	175,241	(1,483,711)	310,865	107,161	(95,455)	(109,507)	(40,169)	(1,481,365)
Investing activities	82,554	1,877,285	(90,194)	283,100	100,993	97,017	71,755	1,497,168
Financing activities	(220,729)	(390,626)	(220,729)	(390,626)	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	37,066	2,948	(58)	(365)	5,538	(12,490)	31,586	15,803
Cash and cash equivalents:								
Cash and cash equivalents at beginning of financial year	74,656	71,708	2,780	3,145	30,174	42,664	41,702	25,899
Cash and cash equivalents at end of financial year	111,722	74,656	2,722	2,780	35,712	30,174	73,288	41,702