Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2013

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MANULIFE INSURANCE BERHAD
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DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITY

The Company is principally engaged in the underwriting of life insurance business. There has been no significant change in the principal activity of the Company during the financial year.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	62,314

DIVIDENDS

Since the end of the previous financial year, the Company paid a first and final single tier dividend of 66.67 sen per share, amounting to RM200,010,004 in respect of the financial year ended 31 December 2012.

The directors do not recommend any payment of dividend for the current financial year.

RESERVES AND PROVISIONS

Material transfers to or from reserves and provisions during the financial year are as disclosed in the financial statements.

SHARE CAPITAL

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

PROVISION OF INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework for Insurers.

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowances for doubtful debts, and satisfied themselves that there were no known bad debts written off and that adequate impairment losses had been made.

At the date of this report, the directors are not aware of any circumstances that would render it necessary to write off any bad debts or the amount of impairment losses in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that any current assets, which were unlikely to realise their values as shown in the accounting records of the Company in the ordinary course of business, have been written down to an amount which they might be expected to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements of the Company misleading.

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) 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

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

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Company to meet their obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

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.

ITEMS OF AN UNUSUAL NATURE

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS

On 13 June 2013, the Company signed a 10-year strategic bancassurance agreement with Alliance Bank Malaysia Berhad (“ABMB’).

The total consideration to be paid to ABMB under this exclusive agreement will be up to RM70 million. As of 31 December 2013, RM30 million has been paid and was capitalised as an intangible asset. The remaining balance will be paid over the next 10 years and the committed fees are accordingly disclosed as other commitments in note 33 to the financial statements.

Further disclosures are provided in note 2(c)(i) and note 6 to the financial statements.

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE

The Company has taken concerted steps to ensure compliance with Bank Negara Malaysia's (“BNM”) Prudential Framework of Corporate Governance for Insurers (BNM/RH/GL/003-2) and its best practice applications.

Board responsibility and oversight

The Board of Directors (“the Board”) has generally complied with BNM's Minimum Standards for Prudential Management of Insurers (BNM/RH/GL/003-1) (Consolidated). The Board comprises 4 independent non-executive directors, 3 non-independent non-executive directors and an executive director to enable a balanced and objective consideration of issues, hence facilitating optimal decision-making.

Board Committees

During the financial year, the Company used the services of the Board committees of the immediate holding company, which are as follows:

(i) Group Nominating/Remuneration Committee
(ii) Group Risk Management Committee

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Audit Committee

The members of the Audit Committee of the Company as at 31 December 2013 are as follows:-

Lim Hun Soon @ David Lim *(Chairman)*	
Datuk Seri Panglima Mohd Annuar bin Zaini	
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani	
Rockson Leung Lok Shuen	(Appointed on 2 September 2013)
Gianni Fiacco	(Retired on 26 June 2013)

A total of six (6) Audit Committee Meetings were held on 25 February 2013, 20 March 2013, 18 April 2013, 16 May 2013, 12 August 2013 and 21 November 2013, for the financial year ended 31 December 2013. The attendance of the Audit Committee members are as follows:-

Name of Members	Attendance
Lim Hun Soon @ David Lim (Chairman)	6 out of 6 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	6 out of 6 meetings
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani	5 out of 6 meetings
Rockson Leung Lok Shuen (Appointed on 2 September 2013)	1 out of 1 meeting
Gianni Fiacco (Retired on 26 June 2013)	4 out of 4 meetings

The main duties and responsibilities of the Audit Committee are to review audit issues concerning internal control and risk management identified by the internal auditors, external auditors and regulatory examiners. The Audit Committee annually reviews and approves the audit plan and budget to ensure that the Internal Audit function operates effectively.

Management accountability

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing policy on executive remuneration. None of the directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Financial Services Act 2013.

The management meets all prescriptive requirements under this section, and has already adopted best practices in the areas of organisational structure and allocation of responsibilities, conflicts of interest, goal setting and the area of communication.

Corporate independence

The Company has complied with the requirements of BNM's Guidelines on Related-Party Transactions (BNM/RH/GL/003-3) in respect of all its related party undertakings. Necessary disclosures have been made to the Board and where required, the prior approval of the Board has also been obtained.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Internal controls and operational risk management

The Company has established an internal control system and formalised its risk management system. As risk management is a continuous process, risk and controls self-assessment are performed on a quarterly basis. The results are reported to the Board accordingly and the corrective actions, where necessary, are taken in a timely manner.

Public accountability

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

Financial reporting

The Company has maintained proper accounting records and the Company's financial statements are prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia.

DIRECTORS

The directors who have held office during the year since the date of the last report are:

Dato’ Md Agil bin Mohd Natt	
Datuk Seri Panglima Mohd Annuar Bin Zaini	
Dato’ Dr. Nik Norzrul Thani bin N Hassan Thani	
Lim Hun Soon @ David Lim	
Chew Yee Ming George	
Robert Allen Cook	
Mark Steven O’Dell	(Appointed on 24 June 2013)
Rockson Leung Lok Shuen	(Appointed on 2 September 2013)
Philip John Hampden-Smith	(Resigned on 1 April 2013)
Gianni Fiacco	(Retired on 26 June 2013)

In accordance with Article 1 of the Company's Articles of Association and Regulation 63 of the Table A in the Fourth Schedule to the Companies Act, 1965, Datuk Seri Panglima Mohd Annuar Bin Zaini and Dato’ Dr. Nik Norzrul Thani bin N Hassan Thani shall retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.

In accordance with Article 1 of the Company’s Articles of Association and Regulation 68 of the Table A in the Fourth Schedule to the Companies Act, 1965, Mr Mark Steven O’Dell and Mr Rockson Leung Lok Shuen shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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MANULIFE INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than benefits disclosed as directors' remuneration and benefits in the financial statements) by reason of a contract made by the Company or a related company with a director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

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

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, particulars of interests of Directors who held-office at the end of the financial year in shares of the ultimate holding company are as follows:

	Number of ordinary shares			
	As at 1.1.2013	Acquired	Sold	As at 31.12.2013
Manulife Financial Corporation				
- Direct interest				
Robert Allen Cook	10,000	-	-	10,000

	Number of option on ordinary shares			
	As at 1.1.2013	Granted	Exercised/ Lapsed	As at 31.12.2013
Manulife Financial Corporation				
- Direct interest				
Robert Allen Cook	1,018,277	210,435	(38,000)	1,190,712
Chew Yee Ming George	61,394	-	(44,116)	17,278
Mark Steven O'Dell	31,340	15,963	-	47,303

Stock options are granted to selected individuals under Manulife Financial Corporation's ("MFC") Executive Stock Option Plan ("ESOP"). These options provide the holder with the right to purchase common shares of MFC at an exercise price equal to the higher of the prior day or prior five day average closing market price of common shares on the Toronto Stock Exchange on the date the options were granted.

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MANULIFE INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS (CONTINUED)

	Number of deferred/restricted share units			
	As at 1.1.2013/ date of appointment	Granted/ Reinvested	Released/ Lapsed	As at 31.12.2013
Manulife Financial Corporation				
- Direct interest				
Robert Allen Cook	129,963	32,303	(10,912)	151,354
Chew Yee Ming George	53,100	892	(32,508)	21,484
Mark Steven O'Dell	24,097	10,251	(6,981)	27,367
Rockson Leung Lok Shuen	16,739	9,967	(6,316)	20,390

Deferred share units and restricted share units granted to certain employees under Manulife Financial Corporation's ESOP entitle the holder to receive cash payment equal to the value of the same number of common shares plus credited dividends upon retirement or termination of employment or as they are vested.

Other than as disclosed, no other directors in office at the end of the financial year held any interest in the shares in the Company or its related corporations during the financial year.

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

HOLDING COMPANY

The directors regard Manulife Holdings Berhad, a company incorporated in Malaysia, as the Company's immediate holding company, and Manulife Financial Corporation, a corporation incorporated in Canada, as the ultimate holding company.

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 24 March 2014.

DATO' MD AGIL BIN MOHD NATT

CHAIRMAN

CHEW YEE MING GEORGE

DIRECTOR

Kuala Lumpur, Malaysia

Company No.

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MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Dato' Md Agil bin Mohd Natt and Chew Yee Ming George, being two of the directors of Manulife Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 11 to 83 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and 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 2013 and its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 24 March 2014.

DATO' MD AGIL BIN MOHD NATT
CHAIRMAN

CHEW YEE MING GEORGE
DIRECTOR

Kuala Lumpur, Malaysia

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

I,Tham Kok Yoke, being the officer primarily responsible for the financial management of Manulife Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 11 to 83 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.

THAM KOK YOKE

Subscribed and solemnly declared by the above named Tham Kok Yoke at Kuala Lumpur in Malaysia on 24 March 2014, before me.

COMMISSIONER FOR OATHS

COMMISSIONER FOR OATHS
No: W 513
KALASAGAR NAIR
MALAYSIA

Suite D3-U1-11 Blok D3
Solaris Dutamas
Jalan Dutamas 1,

EY
Building a better working world

Ernst & Young AF: 0039
Chartered Accountants
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50490 Kuala Lumpur Malaysia

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+603 2095 9076
+603 2095 9078
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Independent auditors' report to the member of Manulife Insurance Berhad (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Manulife Insurance Berhad, which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss, statement of total comprehensive income, statement of changes in equity and statement of cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 11 to 83.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements so as to 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 that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and requirements of the Companies Act, 1965 in Malaysia.

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 member 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
Ernst & Young
AF: 0039
Chartered Accountants

Brandon Bruce Sta Maria
No. 2937/09/15(J)
Chartered Accountant

Kuala Lumpur, Malaysia
24 March 2014

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MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
ASSETS			
Property and equipment	4	16,113	9,597
Investment properties	5	45,586	48,897
Intangible assets	6	28,627	-
Loans and receivables	7	424,920	547,363
Available-for-sale financial assets	8(a)	2,509,428	2,437,881
Fair value through profit or loss financial assets	8(b)	893,520	714,785
Reinsurance assets	9	1,731	3,268
Insurance receivables	10	26,969	27,995
Cash and cash equivalents		34,404	30,430
TOTAL ASSETS		3,981,298	3,820,216
EQUITY, POLICYHOLDERS' FUND AND LIABILITIES			
Share capital	11	150,000	150,000
Retained earnings	12	204,070	341,766
Other reserve	12	15,045	27,437
TOTAL EQUITY		369,115	519,203
Insurance contract liabilities	13	3,072,831	2,803,687
Insurance claims liabilities	14	41,001	36,133
Deferred tax liabilities	15	41,672	47,571
Insurance payables	16	364,488	348,676
Current tax liabilities		2,579	11,157
Other payables	17	89,612	53,789
TOTAL LIABILITIES		3,612,183	3,301,013
TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES		3,981,298	3,820,216

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

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MANULIFE INSURANCE BERHAD
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STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
Premium income			
Gross premiums		685,265	515,366
Premiums ceded to reinsurers		(11,013)	(10,499)
Net premiums	18	674,252	504,867
Investment income	19	151,322	147,846
Net realised gains	20	97,842	66,185
Net fair value gains	21	69,757	35,729
Fee income	22	2,015	-
Other operating income		1,144	933
Total revenue		996,332	755,560
Gross benefits and claims paid		(424,253)	(375,286)
Claims ceded to reinsurers		1,525	5,715
Gross change in contract liabilities		(322,808)	(169,824)
Net claims		(745,536)	(539,395)
Fee and commission expenses		(75,461)	(73,231)
Investment expenses		(7,923)	(8,178)
Management expenses	23	(78,956)	(59,018)
Other operating expenses	25	(11,473)	(18,679)
Other expenses		(173,813)	(159,106)
Profit before taxation		76,983	57,059
Taxation	26	(14,669)	(10,727)
Net profit for the financial year		62,314	46,332
Net profit attributable to:			
Equity holder of the Company		62,314	46,332
Basic earnings per share (sen)	27	20.77	15.44

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

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MANULIFE INSURANCE BERHAD
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STATEMENTS OF TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
Net profit for the financial year		62,314	46,332
Other comprehensive (losses)/income, net of tax:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:-			
Fair value change on available-for-sale financial assets:			
- Gross fair value change	8(c)	(74,808)	37,613
- Deferred tax	15	8,020	(3,204)
		(66,788)	34,409
Change in insurance contract liabilities arising from unrealised net fair value losses/(gains)	13	54,396	(26,084)
- Net (losses)/gains		(12,392)	8,325
Net other comprehensive (losses)/income to be reclassified to profit or loss in subsequent periods		(12,392)	8,325
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:-			
Surplus from revaluation of properties:			
- Gross surplus from revaluation		641	-
Changes in insurance contract liabilities arising from revaluation of properties		(641)	-
- Net gains		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Net other comprehensive (losses)/income to be reclassified to profit or loss in subsequent periods		(12,392)	8,325
Other comprehensive (losses)/income for the financial year		(12,392)	8,325
Total comprehensive income for the financial year		49,922	54,657
Total comprehensive income attributable to:			
Equity holder of the Company		49,922	54,657

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

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Company	**Note**	**Share capital RM'000**	**Fair value reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2012		150,000	19,112	295,434	464,546
Net profit for the financial year		-	-	46,332	46,332
Other comprehensive income for the financial year		-	8,325	-	8,325
Total comprehensive income for the financial year		-	8,325	46,332	54,657
At 31 December 2012/1 January 2013		150,000	27,437	341,766	519,203
Net profit for the financial year		-	-	62,314	62,314
Other comprehensive losses for the financial year		-	(12,392)	-	(12,392)
Total comprehensive (losses)/income for the financial year		-	(12,392)	62,314	49,922
Dividend paid	28	-	-	(200,010)	(200,010)
At 31 December 2013		150,000	15,045	204,070	369,115

Included in the retained earnings are surplus from Non-participating life fund of the Company (net of deferred tax) of approximately RM71,719,000 (1 January 2013/ 31 December 2012: RM 71,719,000; 1 January 2012: RM120,469,000). These amounts are only distributable upon the actual recommended transfer from the Non-participating life fund to the Shareholders' fund by the Appointed Actuary.

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

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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		62,314	46,332
Adjustments for non-cash items	29	31,535	(50,515)
Operating gains/(losses) before changes in operating assets and liabilities		93,849	(4,183)
Purchase of investments		(2,163,005)	(1,158,984)
Proceeds from sale and maturity of investments		2,014,139	1,066,981
Interest income received		100,869	103,222
Dividend income received		39,458	33,415
Rental income received		4,143	3,847
Increase in other receivables		(3,268)	(11,720)
Increase in payables		51,635	39,219
Increase in insurance claims liabilities		6,496	515
Decrease/(increase) in fixed and call deposits		101,165	(53,982)
Decrease in loans receivable		31,701	13,679
Cash generated from operations		277,182	32,009
Income taxes paid		(40,392)	(24,264)
Net cash inflow from operating activities		236,790	7,745
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(2,806)	(1,587)
Purchase of intangible assets		(30,000)	-
Proceeds from disposal of property and equipment		-	12
Net cash outflow from investing activities		(32,806)	(1,575)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividend paid to shareholder		(200,010)	-
Net cash outflow from financing activity		(200,010)	-
Net increase during the financial year		3,974	6,170
Cash and cash equivalents at 1 January		30,430	24,260
Cash and cash equivalents at 31 December		34,404	30,430

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows and statement of financial position comprise the following:

	2013 RM'000	2012 RM'000
Cash and bank balances	34,332	24,394
Short-term deposits	72	6,036
Cash and cash equivalents	34,404	30,430

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

1. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

General

The Company is a public limited liability company, incorporated and domiciled in Malaysia

The immediate holding company is Manulife Holdings Berhad, a public listed company incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad. The ultimate holding company is Manulife Financial Corporation, a corporation incorporated and domiciled in Canada and listed on Toronto, New York and Hong Kong Stock Exchanges.

Principal activities

The Company is engaged principally in the underwriting of life insurance business. There have been no significant changes in the principal activities of the Company during the financial year.

Registered office and principal place of business

The registered office and principal place of business of the Company is located at 16th Floor, Menara Manulife, 6 Jalan Gelenggang, Damansara Heights, 50490 Kuala Lumpur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

(i) Adoption of new policies/amendments in the current year

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Description	Effective Date
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
MFRS 3 Business Combinations	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Annual Improvements 2009-2011 Cycle	1 January 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) Adoption of new policies/amendments in the current year (continued)

The accounting policies adopted are consistent with those of the previous financial year except as follows: (continued)

Description	Effective Date
Amendments to MFRS 1: Government Loans	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013

Adoption of the above standards and interpretations did not have any significant effect on the financial performance or position of the Company other than additional disclosures.

(ii) Standards, amendments to published standards and interpretations to existing standards that are issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Description	Effective Date
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011–2013 Cycle	1 July 2014
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of the Company's financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

(b) Property and equipment

Property and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

The cost of property and equipment includes expenditure that is directly attributable to the acquisition of the assets. Dismantlement, removal or restoration costs are included as part of the cost of property and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to the property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Company and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

Land and buildings which are substantially occupied by the Company for its operations, are classified under property and equipment.

Land and buildings are initially stated at cost and subsequently shown at fair value, based on independent valuation of the open market value on the existing use basis carried out by professional valuers less accumulated depreciation and accumulated impairment losses. The valuation of land and buildings is carried out once in every five years or earlier if the carrying values of the revalued assets are materially different from the market values.

When the land and buildings are revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment (continued)

The surplus arising on revaluation is credited to the asset revaluation reserve account within insurance contract liabilities except that a surplus, to the extent that such surplus is related to and not greater than a deficit arising on revaluation previously recorded as an expense, is credited to the profit or loss. A deficit arising on revaluation is recognised as an expense except that, to the extent that such a deficit is related to a surplus which was previously recorded as a credit to the asset revaluation reserve account and which has not been subsequently reversed or utilised, it is charged directly to that account.

No depreciation is charged on freehold land. Leasehold building is amortised in equal installments over the period of their respective leases or earlier if the expected useful life is lower than the leasehold period.

Work in progress is not depreciable until the asset is ready for its intended use.

All other property and equipment are depreciated on a straight line basis to write off the cost of the assets over their estimated useful lives. The principal annual rates of depreciation used are as follows:

Building	-	50 years (subsequent to revaluation, the revalued amounts are amortised over the remaining useful lives following the date of the latest valuation)
Furniture, fittings and equipment	-	10% to 20%
Motor vehicles	-	20%

The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each reporting date.

At each reporting date, the Company assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount as set out in note 2(g)(ii) on impairment.

On disposal of property and equipment, the difference between net proceeds and the carrying amount is recognised in the profit or loss. On disposal of revalued assets, the amounts of any remaining revaluation surplus relating to those assets are transferred to retained earnings.

Repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Intangible assets

(i) Exclusive right

The exclusive right arises from the 10 year strategic bancassurance agreement with Alliance Bank Malaysia Berhad ("ABMB"). The exclusive right is amortised over the duration of the agreement with reference to the benefits generated from the partnership in which the Company expects to recognise the related revenue.

(ii) Computer software

This relates to cost of software rights developed. These rights are amortised on a straight-line basis over a period of four years.

At each reporting date, the Company assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount as set out in note 2(g)(ii) on impairment of assets.

(d) Financial instruments

(i) Classification, recognition and measurement of financial assets

The Company classifies the financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") financial assets, available-for-sale ("AFS") financial assets and loans and receivables ("LAR").

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition.

(1) FVTPL

Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. For investments designated at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment 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 are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(i) Classification, recognition and measurement of financial assets (continued)

(2) HTM

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Company has the positive intention and ability to hold until maturity. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial measurement, HTM financial assets are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(3) LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All transaction costs directly attributable to the acquisition are also included in the cost of the investments. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(4) AFS

AFS are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial measurement, AFS are remeasured at fair value.

Fair value gains and losses of these investments are recognised in other comprehensive income.

On derecognition or impairment, the cumulative fair value gains and losses previously recognised in other comprehensive income are transferred to profit or loss as net realised gains on financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(ii) Derecognition and impairment of financial assets

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

All financial assets, except for FVTPL, are subject to review for impairment as set out in 2(g)(i).

(e) Fair value of financial instruments

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

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposits/placements and accrued interests/profits. The fair value of fixed interest/yield-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment properties

Investment properties comprise land and buildings held by the Company which are held for long term rental yields or for capital appreciation or both and are not substantially occupied by the Company.

Investment properties are initially stated at cost including related and incidental expenditure incurred, and are subsequently carried at fair value by the directors based on independent valuation of the open market values on existing use basis carried out by professional valuers. These valuations are reviewed annually and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying values of the investment properties are materially different from the market values. Investment properties are not depreciated.

Any changes in the fair values of investment properties are recorded in the profit or loss.

On disposal of investment properties, the difference between net proceeds and the carrying amount is recognised in the profit or loss as appropriate.

If an investment property becomes owner-occupied, it is reclassified to property and equipment at its carrying value at the date of transfer.

(g) Impairment

(i) Financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the impairment loss is recorded in the profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

(i) Financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

AFS financial assets

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

(ii) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Impairment loss is charged to the profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in the recoverable amount is recognised in the profit or loss unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Employee benefits

(i) Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

The Company is required to contribute to the Employees' Provident Fund, a defined contribution plan.

Other than the mandatory contributions to the Employees' Provident Fund, the Company makes contributions to a separately funded defined contribution retirement benefits scheme ("the Scheme"), which is operated by the immediate holding company and administered by the Trustees of the Scheme, for all employees of the Group, including employees of the Company. Under the Scheme, the Company shall make contributions to the Scheme at such rate and at such frequency as shall be determined from time to time by the immediate holding company and the Trustees of the Scheme, with the advice of an Actuary, provided that the total contribution by the Company to the Scheme and to the Employees' Provident Fund does not exceed 15% of the employees' salary. Actuarial investigation is carried out periodically to assess the financial condition of the Scheme.

The contribution payable for the financial year is charged to the profit or loss. Once the contributions have been paid, the Company has no further payment obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Employee benefits (continued)

(iii) Share-based plan

The Company participated in share-based compensation plans granted to certain employees of Manulife Financial Corporation Group as consideration for services rendered. These plans include both equity-settled share options and cash-settled share-based compensation scheme to eligible employees.

(i) Equity-settled share based compensation

The fair value of equity settled, share-based compensation granted to employees as at the grant date is recognised in the profit and loss over the vesting periods of the grant. The fair value of the grant is measured using the Black Scholes option pricing model, with the market price or strike price being the closing transaction price of Manulife Financial Corporation ("MFC") shares prior to the grant date. In valuing the share-based payments, no account is taken of any performance conditions, other than conditions linked to the price of the shares of MFC if applicable.

At each date of the statement of financial position, the Company review its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the profit or loss.

(ii) Cash-settled share-based compensation

The fair value of the employee services received in exchange for the grant of the share appreciation rights is recognised in the profit or loss over the vesting periods of the grant with a corresponding increase in liabilities.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share appreciation rights of Manulife Financial Corporation. At each date of the statement of financial position, the Company review its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the profit or loss.

The cumulative liability incurred net of any directly attributable transaction costs, will be reversed as cash is paid at the end of the vesting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Foreign currencies

(i) Functional and Presentation currency

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

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

(ii) Transaction and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(iii) Operations denominated in functional curency other than Ringgit Malaysia

The results and financial position of Investment-linked funds' operations (none of which has the currency of a hyperinflationary economy) with functional currency that is different from the presentation currency of the Company are translated into the presentation currency as follows:

(1) Assets and liabilities for statement of financial position presented are translated at the closing rate at the date of the statement of financial position; and

(2) Income and expenses for the profit or loss are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates), in which case income and expenses are translated using the exchange rates at the date of the transactions.

(j) Product classification

An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. For purposes of MFRS 4 on "Insurance Contracts", the Company defines insurance risk to be significant when the benefits payable on the occurrence of the insured event are 5% or more than the benefits payable if the insured event did not occur at any one point of the insurance contract. Based on this definition, all policy contracts issued by the Company, including investment-linked contracts, are considered insurance contracts as at the date of the statement of financial position. The investment components of the investment-linked contracts are not unbundled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Product classification (continued)

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

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

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

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

Contracts in the Participating life fund are classified as insurance contracts with DPF and contracts in the Non-participating life fund are classified as insurance contracts without DPF.

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.

(k) Reinsurance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Reinsurance (continued)

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

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

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

(l) Life insurance underwriting results

(i) Gross premiums

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

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

Premium income of the Investment-linked funds is in respect of the 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. Net creation of units is recognised on a receipt basis.

(ii) Reinsurance premiums

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relates.

(iii) Commission and agency expenses

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Life insurance underwriting results (continued)

(iv) Benefits, claims and expenses

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

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

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

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

(2) 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.

(m) Insurance receivables

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

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost and impairment loss is calculated under the same method used for these financial assets as set out in note 2(g)(i) on impairment.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in note 2(d)(ii), have been met.

(n) Assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Taxation

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 taxable profits for the financial year and is measured using the tax rates that have been enacted at the reporting date. Current tax is recognised in the profit or loss.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

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

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or when the deferred tax liability is settled. Deferred tax is recognised in the profit or loss except when it arises from a transaction which is recognised in other comprehensive income or directly in equity or directly in the insurance contract liabilities, in which case, the deferred tax is also charged or credited to other comprehensive income or directly in equity or directly in the insurance contract liabilities.

(p) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank balances and deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

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

(q) Other revenue recognition

Interest income is recognised using the effective interest rate method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Other revenue recognition (continued)

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

Dividend income is recognised in the financial statements when the right to receive payment is established.

Rental income from investment properties are recognised on a straight line basis over the term of the lease.

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

Fee income is recognised when the services are provided.

(r) Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability in the financial year in which it is declared and approved by the Company’s shareholder.

(s) Contingent liabilities and contingent assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Insurance contract liabilities

(i) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by the gross premium valuation method, a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of Non-participating life policies, the guaranteed benefits liabilities of Participating life policies and non-unit liabilities of investment-linked policies.

The liability in respect of policies of a Participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the fund level.

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 the liabilities if the accumulated amount is higher than the figure as calculated using the prospective actuarial valuation method.

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

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

The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised insurance contract liabilities are adequate, net of present value of in-force business (“PVIF”) by using an existing liability adequacy test.

Any inadequacy is recorded in the profit or loss, initially by impairing PVIF and subsequently by establishing technical reserves for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Insurance contract liabilities (continued)

(ii) Unallocated surplus

Surpluses of contract under the Participating life fund are attributable to policyholders and shareholders and the amount and timing of distribution to both the policyholders and shareholders are determined by an actuarial valuation of the long term liabilities to policyholders at the date of the statement of financial position and is made in accordance with the provision of the Financial Services Act 2013 (which replaced Insurance Act, 1996, effective 30 June 2013) and related regulation by the Company's Appointed Actuary. Unallocated surplus of Participating life fund, where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

(iii) Fair value reserve

Fair value gains and losses on AFS financial assets of Participating life fund are initially recognised in other comprehensive income. Subsequently, an equivalent amount of adjustment to the insurance contract liabilities is recognised.

(iv) Asset revaluation reserve

Revaluation surplus and deficit of self-occupied properties of Participating life fund are initially recognised in other comprehensive income. Subsequently, an equivalent amount of adjustment to the insurance contract liabilities is recognised.

(v) Net asset value attributable to unit holders

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

(u) Fair value measurement

Fair value of an asset or liability is measured at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

In accordance with the transitional provision of MFRS 13 Fair Value Measurement, the Company applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosure. The adoption of MFRS 13 has not significantly affected the measurement of the Company's assets or liabilities other than additional disclosures.

The valuation techniques and categories of fair values of assets and liabilities are further described in note 4, note 5, note 31(b) and note 31(c).

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Company's accounting policies, the Company establishes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events and reinsurance premium levels that are believed to be reasonable with the knowledge and information then available. Best estimate assumptions are constantly reviewed to ensure that they remain relevant and valid.

The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates, assumptions and judgements that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future are discussed below.

Valuation of actuarial liabilities

The valuation of the ultimate liability arising from policy benefits made under life insurance contracts is the Company's most critical accounting estimate. The assumptions in relation to mortality, morbidity, longevity, investment returns, expenses, surrender (including lapse) rates, policyholders' bonuses/dividends and discount rates are used for calculating the liabilities during the life of the contract. Such assumptions require a significant amount of professional judgement and therefore, actual experience may be materially different than the assumptions made by the Company. Actual experience is monitored to assess whether the assumptions remain appropriate and assumptions are changed as warranted. Any movement in the key assumptions will have an effect in determining the actuarial liabilities. All contracts are subject to a liability adequacy test, which reflect management's best current estimate.

The key assumptions used in the estimation of actuarial liabilities are as follows:

<u>Interest rate</u>

The discount rates used for the valuation of Non-participating life fund, the non-unit liabilities of the Investment-linked funds, Operating fund and the guaranteed benefits liabilities of the Participating life fund under the "Risk-Based Capital Framework for Insurers" are described below:-

(i) For cash flows with duration of less than 15 years, Malaysia Government Bond zero coupon spot yields of matching duration are used; and

(ii) For cash flows with duration of 15 years or more, Malaysia Government Bond zero coupon spot yields of 15 years to maturity are used

where duration is the term to maturity of each future cash flow.

The following are the zero coupon spot yields as at current financial year end which are obtained from Bond Pricing Agency Malaysia Sdn Bhd, a bond pricing agency approved by BNM.

Tenor (Years)	1	2	3	4	5	6	7	8	9	10	11
Zero Coupon Spot Yield	3.03%	3.23%	3.44%	3.68%	3.81%	3.96%	4.04%	4.07%	4.11%	4.20%	4.29%

Tenor (Years)	12	13	14	15+
Zero Coupon Spot Yield	4.39%	4.49%	4.60%	4.65%

The risk free discounting yield will be adjusted downwards by 2.5 basis points per annum to reflect the expense for the levy assessed by Malaysia Deposit Insurance Corporation (or Perbadanan Insurans Deposit Malaysia, "PIDM") based on the most recent assessment in 2013.

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Valuation of actuarial liabilities (continued)

Interest rate (continued)

For the valuation of total benefits liabilities of the Participating life fund, the net fund based yields are used. The graded net fund based yields as at current financial year end for the ordinary life Participating fund and Annuity fund respectively follow the interest rate vectors shown below.

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023+
Ordinary Par	5.67%	5.79%	5.90%	6.02%	6.14%	6.25%	6.37%	6.48%	6.60%	6.72%
Annuity Par	5.12%	5.33%	5.54%	5.75%	5.96%	6.16%	6.37%	6.58%	6.79%	7.00%

The graded yields shown above will be adjusted by applying investment income tax of 8% (for ordinary life Participating fund) and PIDM levy of 2.5 basis points. Investment income tax is not applicable to Annuity Par since it is tax exempted. As such, the valuation discount rates for total benefits liabilities are computed as follow:-
Ordinary Par: Net fund based yield * (1 – 8%) – 0.025%;
Annuity Par: Net fund based yield – 0.025%.

Mortality, morbidity, critical illness, expenses and surrenders (including lapses)

The Company based its mortality and morbidity assumptions on established industry and Malaysian tables which reflect historical experiences, adjusted where appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

Assumptions on future expenses are based on current expense levels with appropriate expected expense inflation adjustments. The current expense assumption is derived from recent expense study which targets breakeven within the budgeting period. An explicit maintenance expense deficiency reserve (updated annually based on most recent business plan results) has been established to cater for current expected overrun prior to breakeven year. The expense for levy assessed by PIDM (i.e. 2.5 basis points per annum of the actuarial valuation of the insurance contract liabilities) has been implicitly reflected by the 2.5 basis points annual reduction of the valuation yield.

In the current financial year, the Company has revised its Investment-linked premium lapse assumptions to reflect latest experience from the recent Premium Lapse Study 2013.

For the Non-participating life fund, the non-unit liabilities of the Investment-linked Operating fund and the guaranteed benefits liabilities of the Participating life fund, provision for risk of adverse deviation ("PRAD") assumptions are added to the best estimate assumptions.

For the valuation of total benefit liabilities of the Participating life fund, the best estimates assumptions are used.

Participating Policyholders' Bonuses/Dividends

Continuance of current bonus level (reflected with Bonus Revision 2012 which was effective from 1 September 2012) is assumed in the best estimate valuation.

4. PROPERTY AND EQUIPMENT

	Building RM'000	Work in progress RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost/valuation					
At 1 January 2012	4,337	50	14,052	261	18,700
Additions	-	924	658	5	1,587
Disposals	-	-	(8)	-	(8)
Transfer to a related company	-	-	(81)	-	(81)
Write off	-	-	(125)	-	(125)
At 31 December 2012/ 1 January 2013	4,337	974	14,496	266	20,073
Additions	-	2,225	581	-	2,806
Transfer (to)/from furniture, fittings and equipment	-	(897)	897	-	-
Transfer from investment properties (note 5)	4,507	-	-	-	4,507
Transfer from a related company	-	-	3	-	3
Transfer to a related company	-	-	(40)	-	(40)
Write off	-	(77)	(38)	(4)	(119)
Revaluation surplus	399	-	-	-	399
At 31 December 2013	9,243	2,225	15,899	262	27,629
Comprising assets stated at 31 December 2013:					
Valuation	9,243	-	-	-	9,243
Cost	-	2,225	15,899	262	18,386
	9,243	2,225	15,899	262	27,629
Comprising assets stated at 31 December 2012:					
Valuation	4,337	-	-	-	4,337
Cost	-	974	14,496	266	15,736
	4,337	974	14,496	266	20,073
Accumulated depreciation					
At 1 January 2012	-	-	9,164	121	9,285
Charge for the financial year	121	-	1,171	23	1,315
Disposals	-	-	(5)	-	(5)
Transfer to a related company	-	-	(43)	-	(43)
Write off	-	-	(76)	-	(76)
At 31 December 2012/ 1 January 2013	121	-	10,211	144	10,476
Charge for the financial year	121	-	1,183	23	1,327
Transfer from a related company	-	-	1	-	1
Transfer to a related company	-	-	(11)	-	(11)
Write off	-	-	(31)	(4)	(35)
Reversal on revaluation of properties	(242)	-	-	-	(242)
At 31 December 2013	-	-	11,353	163	11,516
Net carrying amount					
At 31 December 2013	9,243	2,225	4,546	99	16,113
At 31 December 2012	4,216	974	4,285	122	9,597

4. PROPERTY AND EQUIPMENT (CONTINUED)

The net book value of the revalued building had these assets been carried at cost less accumulated depreciation is as follows:

	2013 RM'000	2012 RM'000
Building	7,005	3,574

As at the reporting date, the title of the properties is registered in the name of the immediate holding company. The immediate holding company has obtained the relevant approval from the authority to transfer the title of the properties in favour of the Company; and is currently in the process of effecting the necessary legal documentation to finalise the transfer so as to achieve compliance with the requirements of the Financial Services Act, 2013. The floors belonging to the immediate holding company will be held in trust by the Company upon the completion of the transfer.

The Company has carried out a valuation on the freehold properties based on the income method conducted by an independent qualified valuer, Sr Heng Kiang Hai, MBA (Real Estate), B.Surv (Hons) Prop.Mgt, MRICS, FRISM, MPEPS, MMIPPM, Registered Valuer (V-486) of C H Williams Talhar & Wong Sdn Bhd. The valuation of these properties was adopted by the directors for the financial year ended 31 December 2013.

Under the income method, the market value of the properties is determined based on the net annual income which is derived by deducting the annual outgoings from the gross annual income and capitalising the net income by a suitable rate of return consistent with the type and quality of investment

Fair value hierarchy

A level is assigned to each fair value measurement based on the lowest level input significant to the fair measurement in its entirety. The three-level hierarchy is defined as follows:-

Level 1 – Fair value is derived from unadjusted quoted price in active markets for identical properties that the entity can access at the measurement date.

Level 2 – Fair value is estimated using inputs that are observable for the properties, either directly or indirectly.

Level 3 – Fair value is estimated using unobservable inputs for the properties.

The fair value of the freehold properties is categorised as follows:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2013			
Building	-	9,243	-

5. INVESTMENT PROPERTIES

	2013 RM'000	2012 RM'000
At 1 January	48,897	48,633
Transfer to self-occupied properties (note 4)	(4,507)	-
Fair value gain (note 21)	1,196	264
At 31 December	45,586	48,897
Represented by:		
Freehold properties	45,586	48,897

As at the reporting date, the title of the investment properties is registered in the name of the immediate holding company. The immediate holding company has obtained the relevant approval from the authority to transfer the title of the properties in favour of the Company; and is currently in the process of effecting the necessary legal documentation to finalise the transfer so as to achieve compliance with the requirements of the Financial Services Act, 2013. The floors belonging to the immediate holding company will be held in trust by the Company upon the completion of the transfer.

The following are amounts arising from investment properties that have been recognised in the profit or loss during the financial year:

	2013 RM'000	2012 RM'000
Rental income (note 19)	3,883	4,029
Direct operating expenses arising from investment properties that generate rental income	(1,348)	(1,619)
Direct operating expenses arising from investment properties that did not generate rental income	(264)	(136)

The Company has carried out a valuation of the freehold properties based on the income method conducted by an independent qualified valuer, Sr Heng Kiang Hai, MBA (Real Estate), B.Surv (Hons) Prop.Mgt, MRICS, FRISM, MPEPS, MMIPPM, Registered Valuer (V-486) of C H Williams Talhar & Wong Sdn Bhd. The valuation of these properties was adopted by the directors for the financial year ended 31 December 2013.

The fair value of the investment properties is categorised under Level 2 of the fair value hierarchy as set out in note 4.

6. INTANGIBLE ASSETS

	Note	Exclusive right RM'000	Computer software RM'000	Total RM'000
Cost				
At 1 January 2012		-	491	491
Additions		-	-	-
At 31 December 2012/1 January 2013		-	491	491
Additions		30,000	-	30,000
At 31 December 2013		30,000	491	30,491
Accumulated amortisation				
At 1 January 2012		-	430	430
Amortisation during the financial year	23	-	61	61
At 31 December 2012/1 January 2013		-	491	491
Amortisation during the financial year	23	1,373	-	1,373
At 31 December 2013		1,373	491	1,864
Net carrying amount				
At 31 December 2013		28,627	-	28,627
At 31 December 2012		-	-	-

The Exclusive right is a definite life intangible asset and relates to a 10-year exclusive bancassurance agreement entered into between the Company and Alliance Bank Malaysia Berhad ("ABMB") on 13 June 2013. During the year, a sign-on fee of RM30 million was paid to ABMB, and will be amortised over the tenure of the agreement in accordance with note 2(c)(i).

7. LOANS AND RECEIVABLES

		2013 RM'000	2012 RM'000
Loans receivable:			
Policy loans		277,984	309,657
Mortgage loans		2,674	2,894
Staff loans		574	382
		281,232	312,933
Allowance for impairment loss		(181)	(181)
	(i)	281,051	312,752
Fixed and call deposits with licensed banks in Malaysia		118,164	216,901
Accrued interest		55	109
	(ii)	118,219	217,010
Other receivables:			
Amount due from related companies	(iii)	2,842	280
Accrued dividend income		3,072	1,015
Accrued rental income		10	270
Deposits		634	628
Other debtors		18,656	14,708
	(iv)	25,214	16,901
Prepayments	(v)	436	700
Total		424,920	547,363

7. LOANS AND RECEIVABLES (CONTINUED)

		2013 RM'000	2012 RM'000
(i)	Loans receivable:		
	Receivable within 12 months	447	362
	Receivable after 12 months	280,604	312,390
		281,051	312,752
(ii)	Fixed and call deposits with licensed banks in Malaysia:		
	Receivable within 12 months	63,880	165,100
	Receivable after 12 months	54,339	51,910
		118,219	217,010

(iii) The amount due from related companies is unsecured, trade related, interest free and repayable on demand.

		2013 RM'000	2012 RM'000
(iv)	Other receivables:		
	Receivable within 12 months	24,824	16,511
	Receivable after 12 months	390	390
		25,214	16,901

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

		2013 RM'000	2012 RM'000
(v)	Prepayments:		
	Receivable within 12 months	436	700

8. FINANCIAL ASSETS

(a) Available-for-sale

	2013 RM'000	2012 RM'000
Equity securities		
- Quoted in Malaysia	721,064	679,002
- Unquoted	1,944	1,944
Unit trust funds*	230,197	90,010
Malaysian Government Securities	602,428	726,006
Government Investment Issues	165,768	145,725
Corporate debt securities		
- Unquoted	773,738	780,776
Accrued interest	14,289	14,418
	2,509,428	2,437,881
Current	1,058,140	856,758
Non-current	1,451,288	1,581,123
	2,509,428	2,437,881

(b) Fair value through profit or loss - designated upon initial recognition

	2013 RM'000	2012 RM'000
Equity securities		
- Quoted in Malaysia	360,029	249,107
- Quoted outside Malaysia	1,236	2,575
Unit trust funds*	1,554	-
Malaysian Government Securities	70,846	130,712
Government Investment Issues	20,809	21,478
Corporate debt securities		
- Unquoted	212,009	217,294
Mutual funds		
- Quoted outside Malaysia	224,527	90,700
Accrued interest	2,510	2,919
	893,520	714,785
Current	676,507	422,471
Non-current	217,013	292,314
	893,520	714,785

* Includes investment in unit trust fund managed by a related company.

8. FINANCIAL ASSETS (CONTINUED)

(c) Carrying value of financial assets

The financial assets and its movement are further analysed as follows:-

	Available-for-sale RM'000	Fair value through profit or loss RM'000	Total RM'000
At 1 January 2012	2,263,027	656,565	2,919,592
Purchases	564,853	594,131	1,158,984
Maturities	(85,008)	(15,921)	(100,929)
Disposals	(341,690)	(534,243)	(875,933)
Fair value gains recorded in:			
Profit or loss (note 21)	-	17,025	17,025
Other comprehensive income	37,613	-	37,613
Allowance for impairment losses (note 21)	(5,503)	-	(5,503)
Accretion of discounts, net of amortisation of premiums (note 19)	2,940	403	3,343
Unrealised exchange loss	-	(3,387)	(3,387)
Movement in accrued interest	1,649	212	1,861
At 31 December 2012/1 January 2013	2,437,881	714,785	3,152,666
Purchases	950,353	1,212,652	2,163,005
Maturities	(71,100)	(17,606)	(88,706)
Disposals	(735,315)	(1,045,780)	(1,781,095)
Fair value (losses)/gains recorded in:			
Profit or loss (note 21)	-	22,541	22,541
Other comprehensive income	(74,808)	-	(74,808)
Allowance for impairment losses (note 21)	(476)	-	(476)
Accretion of discounts, net of amortisation of premiums (note 19)	3,022	197	3,219
Unrealised exchange gains	-	7,140	7,140
Movement in accrued interest	(129)	(409)	(538)
At 31 December 2013	2,509,428	893,520	3,402,948

9. REINSURANCE ASSETS

	2013 RM'000	2012 RM'000
Reinsurance assets on:		
- Insurance contract liabilities	91	-
- Insurance claims liabilities	1,640	3,268
	1,731	3,268

10. INSURANCE RECEIVABLES

	2013 RM'000	2012 RM'000
Due premiums including agents' balances	27,956	28,919
Due from reinsurers and cedants	69	122
	28,025	29,041
Allowance for impairment loss	(1,056)	(1,046)
	26,969	27,995
Receivable within 12 months	29,969	27,995

11. SHARE CAPITAL

	2013		2012	
	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000
Authorised:				
Ordinary shares of 50 sen each:				
At 1 January / 31 December	1,000,000	500,000	1,000,000	500,000
Issued and fully paid up:				
Ordinary shares of 50 sen each:				
At 1 January / 31 December	300,000	150,000	300,000	150,000

No new ordinary shares were issued by the Company during the financial year.

12. RESERVES

	Note	2013 RM'000	2012 RM'000
Non-distributable:			
Fair value reserve	(i)	15,045	27,437
Retained earnings	(ii)	71,719	71,719
Distributable:			
Retained earnings	(iii)	132,351	270,047
		219,115	369,203

12. RESERVES (CONTINUED)

(i) Fair value reserve is in respect of fair value gains or losses on available-for-sale financial assets, net of deferred tax, held by the Non-participating life fund and Shareholder's fund.

(ii) Non-distributable retained earnings are surplus arising from Non-participating life fund, net of deferred tax. These amounts are only distributable upon actual recommended transfer from Non-participating (including Investment-linked Operating fund) life fund to Shareholder's fund by the Appointed Actuary.

(iii) Under the single tier system, there are no restrictions on the Company to frank the payment of dividends out of its entire retained earnings as at the date of the statement of financial position.

13. INSURANCE CONTRACT LIABILITIES

	Gross		Net	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Actuarial liabilities	2,087,864	2,138,525	2,087,773	2,138,525
Unallocated surplus	202,587	63,224	202,587	63,224
Fair value reserve	115,126	169,522	115,126	169,522
Asset revaluation reserve	641	-	641	-
Investment-linked policyholders' account	666,613	432,416	666,613	432,416
	3,072,831	2,803,687	3,072,740	2,803,687
Current	1,083,281	674,226	1,083,289	674,226
Non-current	1,989,550	2,129,461	1,989,451	2,129,461
	3,072,831	2,803,687	3,072,740	2,803,687

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

	Gross		Net	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	2,803,687	2,607,779	2,803,687	2,607,779
Inforce reserve movement	47,297	79,399	47,297	79,399
New business reserve	5,223	(4,704)	5,132	(4,704)
Discount rate and other changes	(103,181)	(132,642)	(103,181)	(132,642)
Unallocated surplus	139,363	161,387	139,363	161,387
Fair value reserve, net of tax	(54,396)	26,084	(54,396)	26,084
Asset revaluation reserve	641	-	641	-
Investment-linked policyholders' account	234,197	66,384	234,197	66,384
At 31 December	3,072,831	2,803,687	3,072,740	2,803,687

13. INSURANCE CONTRACT LIABILITIES (CONTINUED)

As the Non-participating life fund's unallocated surplus and fair value reserve are classified as equity, only the associated Participating life fund's unallocated surplus and fair value reserve are included in the above presentation.

During the year, the Company refined certain parameters for assumptions used for its actuarial liabilities valuation. The change resulted in lower actuarial liabilities of RM45.5 million for the year ended 31 December 2013, with a corresponding increase in unallocated surplus for the Participating life fund and net profit before tax of RM43.9 million and RM1.6 million, respectively.

14. INSURANCE CLAIMS LIABILITIES

	Gross		Net	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Provision for outstanding claims	41,001	36,133	39,361	32,865
Current	41,001	36,133	39,361	32,865

15. DEFERRED TAX LIABILITIES

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

	2013 RM'000	2012 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	41,672	47,571
Current	9,469	39,393
Non-current	32,203	8,178
	41,672	47,571

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

15. DEFERRED TAX LIABILITIES (CONTINUED)

	Unallocated surplus RM'000	Revaluation- investment properties RM'000	Accelerated depreciation RM'000	Revaluation- investment RM'000	Total RM'000
At 1 January 2012	(40,156)	(390)	(392)	(18,776)	(59,714)
Recognised in:					
Profit or loss:					
- Other operating expenses (note 25)	-	(21)	357	(1,274)	(938)
- Taxation (note 26)	16,250	-	55	(20)	16,285
Other comprehensive income					
- Fair value reserve	-	-	-	(3,204)	(3,204)
At 31 December 2012/1 January 2013	(23,906)	(411)	20	(23,274)	(47,571)
Recognised in:					
Profit or loss:					
- Other operating expenses (note 25)	-	(96)	(17)	(1,990)	(2,103)
- Taxation (note 26)	-	-	-	(18)	(18)
Other comprehensive income					
- Fair value reserve	-	-	-	8,020	8,020
At 31 December 2013	(23,906)	(507)	3	(17,262)	(41,672)

16. INSURANCE PAYABLES

	2013 RM'000	2012 RM'000
Due to reinsurers and cedants	1,733	2,342
Due to agents	5,507	5,138
Due to insureds	357,248	341,196
	364,488	348,676
Current	364,488	348,676

The carrying amounts disclosed above approximate the fair values as at the end of the financial year.

17. OTHER PAYABLES

	2013 RM'000	2012 RM'000
Other creditors	64,717	32,316
Accrued liabilities	23,526	20,271
Amount due to immediate holding company	1,081	929
Amount due to related companies	288	273
	89,612	53,789

The amounts due to immediate holding company and related companies are unsecured, trade related, interest free and repayable on demand. The carrying amounts disclosed above approximate the fair values as at the end of the financial year. All amounts are payable within one year.

18. NET PREMIUMS

	2013 RM'000	2012 RM'000
First year premium	79,380	68,586
Renewal year premium	450,290	428,631
Single premium	144,582	7,650
	674,252	504,867

19. INVESTMENT INCOME

	2013 RM'000	2012 RM'000
Financial assets at FVTPL - designated upon initial recognition		
Interest/profit sharing income	14,192	15,531
Dividend income		
- equity securities - quoted in Malaysia	10,188	8,311
- equity securities - unquoted	40	-
Accretion of discounts, net of amortisation of premiums (note 8(c))	197	403
AFS financial assets		
Interest income	65,383	65,202
Dividend income		
- equity securities - quoted in Malaysia	25,271	24,727
- unit trusts	6,016	-
Accretion of discounts, net of amortisation of premiums (note 8(c))	3,022	2,940
Loans and receivables		
Interest/profit income	20,023	23,783
Accretion of discounts, net of amortisation of premiums	2,428	2,312
Investment properties		
Rental income	3,883	4,029
Cash and cash equivalents		
Interest/profit sharing income	679	608
	151,322	147,846

20. NET REALISED GAINS

	2013 RM'000	2012 RM'000
Property and equipment		
Realised gains	-	9
AFS financial assets		
Realised gains:		
Equity securities - quoted in Malaysia	86,674	65,840
Unit trusts funds	642	-
Debt securities	10,526	412
Realised losses:		
Debt securities	-	(76)
Total net realised gains for AFS financial assets	97,842	66,176
Total net realised gains	97,842	66,185

21. NET FAIR VALUE GAINS

	2013 RM'000	2012 RM'000
Investment properties		
Unrealised fair value gains (note 5)	1,196	264
Financial assets at FVTPL – designated upon initial recognition		
Fair value gains		
Realised	46,496	23,943
Unrealised (note 8(c))	35,981	21,135
Fair value losses		
Realised	-	-
Unrealised (note 8(c))	(13,440)	(4,110)
Net fair value gains on financial assets at FVTPL – designated upon initial recognition	69,037	40,968
AFS financial assets		
Impairment losses on quoted equities (note 8(c))	(476)	(5,503)
Total net fair value gains	69,757	35,729

22. FEE INCOME

Fee income comprises outsourcing fee income earned from related companies.

23. MANAGEMENT EXPENSES

	2013 RM'000	2012 RM'000
Staff costs (note 23(a))	31,604	24,567
Directors' remuneration: (note 23(b))		
- Fees	202	139
- Other emoluments	1,804	1,224
Auditors' remuneration:		
- Statutory audit	307	291
- Audit related services	37	30
Office rental payable to:		
- Immediate holding company	913	737
- Others	1,000	823
Depreciation of property and equipment (note 4)	1,327	1,315
Amortisation of intangible assets (note 6)	1,373	61
Property and equipment written off (note 4)	84	49
Allowance/(reversal of)impairment loss	10	(18)
Association fees	822	873
Bancassurance service fee	1,500	-
Credit card charges	2,112	2,018
Sub-total (page 52)	43,095	32,109

23. MANAGEMENT EXPENSES (CONTINUED)

	2013 RM'000	2012 RM'000
Sub-total (page 51)	43,095	32,109
Fund management expenses	2,169	1,801
Information technology outsourcing expenses	11,564	8,120
Marketing and advertising expenses	7,742	3,072
PIDM levy	535	1,318
Printing and stationery expenses	1,027	1,163
Postage and courier charges	1,279	1,260
Outsourcing fees	520	902
Software maintenance	875	602
Travelling expenses	906	826
Other expenses	9,244	7,845
	78,956	59,018

(a) Staff costs

		2013 RM'000	2012 RM'000
Staff costs		27,864	21,786
Retirement benefits contributions	(i)	3,352	2,604
Share-based payments	(ii)	388	177
Total staff costs		31,604	24,567

(i) The retirement benefits contributions of the Company were made to the defined contribution plan as mentioned in note 2(h)(ii) to the financial statements.

(ii) Share-based payments incurred during the financial year relates to the share-based compensation granted to employees as mentioned in note 2(h)(iii) to the financial statements.

(b) Directors' remuneration

The aggregate amount of emoluments received by directors of the Company during the financial year are as follows:-

	2013 RM'000	2012 RM'000
Executive director:		
Salaries	1,012	547
Bonus	180	141
Contribution to defined contribution plan	63	35
Gratuity	-	68
RSU expenses	240	196
Benefits in kind	309	220
	1,804	1,207

23. MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration (continued)

	2013 RM'000	2012 RM'000
Non-executive directors:		
Fees	202	139
Meeting allowances	-	17
	202	156
Total	2,006	1,363
Represented by:		
Directors' fees	202	139
Directors' emoluments	1,495	1,004
Benefits in kind	309	220
	2,006	1,363

The number of executive and non-executive directors whose total remuneration received during the financial year are analysed by the following bands:

	Number of directors 2013	2012
Executive director:		
RM100,001-RM2,000,000	1	2
Non-executive directors:		
Below RM50,000	7	9

(c) Details of remuneration received by the Chief Executive Officer during the financial year are as follows:

	2013 RM'000	2012 RM'000
Salaries	1,012	547
Bonus	180	141
Contribution to defined contribution plan	63	35
Gratuity	-	68
RSU expenses	240	196
Benefits in kind	309	220
	1,804	1,207

24. SHARE-BASED PLAN

Expenses arising from the share-based payment transactions recognised during the financial year as part of the employee benefit expense were as follows:

	2013 RM'000	2012 RM'000
RSU expenses	388	373
	388	373

Cash-settled share-based compensation

Restricted share units ("RSU") are granted to certain employees of Manulife Financial Corporation Group as part of the annual performance reward cycle and has a vesting period of over 35 months from grant date. Each RSU entitles the recipient to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions. These RSU expenses are paid out in cash at the end of the vesting period.

25. OTHER OPERATING EXPENSES

	2013 RM'000	2012 RM'000
Net foreign exchange (gains)/losses	(7,168)	3,572
Interest on agent's bond withheld	27	31
Others	1,290	1,176
Tax expense on investment income of Life fund and Investment-linked funds:		
- Current tax**	15,221	12,962
- Deferred tax (note 15)	2,103	938
	17,324	13,900
	11,473	18,679

** Included in the current tax is tax refundable from Inland Revenue Board of Malaysia ("IRB") in relation to a tax appeal in favour of the Company amounting to RM3.3 million (2012: RM3.1 million).

The income tax for the Life fund and Investment-linked funds of the insurance business is calculated based on the tax rate of 8% (2012: 8%) of the assessable investment income, net of allowable deductions for the financial year.

26. TAXATION

	2013 RM'000	2012 RM'000
Current tax		
Current financial year	16,668	24,813
(Over)/under provision in prior financial years	(2,017)	2,199
	14,651	27,012
Deferred tax		
Current financial year (note 15)	18	(16,285)
	14,669	10,727

The current income tax for the Company is calculated based on the tax rate of 25% (2012: 25%) of the estimated assessable profit for the financial year.

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

	2013 RM'000	2012 RM'000
Profit before taxation	76,983	57,059
Taxation at Malaysia statutory tax rate of 25% (2012: 25%)	19,246	14,265
Section 110B tax credit set off	(2,664)	(6,116)
Income not subject to tax	(1,244)	(417)
Expenses not deductible for tax purposes	1,348	796
	16,686	8,528
(Over)/under provision in prior financial years	(2,017)	2,199
Tax expense	14,669	10,727

27. BASIC EARNINGS PER SHARE

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

	2013	2012
Profit attributable to ordinary equity holder (RM'000)	62,314	46,332
Number of shares in issue ('000)	300,000	300,000
Basic earnings per share (sen)	20.77	15.44

The Company has no potential dilutive ordinary shares in issue as at the date of the statement of financial position and therefore, diluted earnings per share has not been presented.

28. DIVIDEND

	2013		2012	
	Net dividend per share Sen	Amount of dividend RM'000	Net dividend per share Sen	Amount of dividend RM'000
Single-tier dividend paid	66.67	200,010	-	-

No dividend payment is recommended for the financial year ended 31 December 2013.

29. ADJUSTMENTS FOR NON-CASH ITEMS

Non-cash items in the statement of cash flows comprise of:

	2013 RM'000	2012 RM'000
Life fund surplus after taxation	385,104	213,571
Transfer of Life fund surplus to profit or loss	(62,295)	(43,747)
Interest income	(100,277)	(105,124)
Dividend income	(41,515)	(33,038)
Rental income	(3,883)	(4,029)
Accretion of discounts, net of amortisation of premiums	(5,647)	(5,655)
Gain on disposal of property and equipment	-	(9)
Gains on disposal of AFS financial assets	(97,842)	(66,176)
Fair value gains on investment properties	(1,196)	(264)
Fair value gains on FVTPL financial assets	(69,037)	(40,968)
Impairment losses on AFS financial assets	476	5,503
Depreciation of property and equipment	1,327	1,315
Property and equipment written off	84	49
Amortisation of intangible assets	1,373	61
Allowance/(reversal of)for impairment loss on insurance receivables	10	(18)
Tax on investment income of Life fund and Investment-linked funds	17,324	13,900
Taxation	14,669	10,727
Unrealised exchange (gains)/losses	(7,140)	3,387
	31,535	(50,515)

30. SIGNIFICANT RELATED PARTY DISCLOSURES

Identity of related parties

For the purposes 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.

The Company has related party relationship with its holding companies, subsidiaries and associates. The related parties of, and their relationship with the Company, other than subsidiaries, are as follows:

Name of company	Country of incorporation	Relationship
Manulife Financial Corporation (“MFC”)	Canada	Ultimate holding company
Manulife Financial Asia Limited (“MFAL”)	Hong Kong	Intermediate holding company
Manulife Holdings Berhad (“MHB”)	Malaysia	Immediate holding company
Britama Properties Sdn Bhd	Malaysia	Subsidiary of MHB
Manulife Asset Management (Malaysia) Sdn Bhd	Malaysia	Subsidiary of MHB
Manulife Asset Management Services Berhad	Malaysia	Subsidiary of MHB
Manulife Technology and Services Sdn Bhd (“MTS”)	Malaysia	Subsidiary of ultimate holding company
Manulife Data Services Inc.	Philippines	Subsidiary of ultimate holding company

In the normal course of business, the Company undertakes various transactions with other companies deemed related parties by virtue of being subsidiary and associated companies of MFC, collectively known as the MFC Group.

Related parties also include key management personnel. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel of the Company include the executive director and certain members of senior management of the Company.

Significant related party transactions

Related party transactions have been entered into in the normal course of business under negotiated terms with the respective parties. The significant related party transactions during the financial year between the Company and its related parties are set out below:

	2013 RM’000	2012 RM’000
Intermediate holding company		
Reimbursement of software maintenance expenses	348	474
Reimbursement of personnel expenses	2,067	2,648

30. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Significant related party transactions (continued)

	2013 RM'000	2012 RM'000
Subsidiaries of ultimate holding company		
Rental income	(833)	(470)
Outsourced information technology service expenses	3,927	3,734
Outsourcing fee for health service call centre and administrative service	504	437
Subsidiaries of the holding company		
Rental income	(346)	(332)
Outsourcing fee income	(1,383)	(132)
Fund management fee expenses	6,428	6,418
Management fees and maintenance charges	99	99
Immediate holding company		
Outsourcing fee income	(632)	-
Outsourcing fee expenses	520	1,034
Rental income	(40)	(39)
Rental and office maintenance expenses	919	743

Key management personnel

Total compensation paid to the Company's key management personnel are as follows:

		2013 RM'000	2012 RM'000
Salaries and other short-term employee benefits		5,595	5,279
Retirement benefits contribution	(i)	76	51
RSU expenses	(ii)	232	373
		5,903	5,703

(i) The retirement benefits contributions were made to the defined contribution plan as mentioned in note 2(h)(ii) to the financial statements.

(ii) The share-based payments incurred during the financial year relates to the share-based compensation granted to employees as mentioned in note 2(h)(iii) to the financial statements

30. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Significant related party balances

Related party balances outstanding for the Company which are included in the notes to the financial statements are as follows:

	2013 RM'000	2012 RM'000
Loans and receivables (note 7)		
- Amount due from related companies	2,842	280
Other payables (note 17)		
- Amount due to immediate holding company	1,081	929
- Amount due to related companies	288	273
	1,369	1,202

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

i) Available-for-sale ("AFS");
ii) Fair value through profit or loss - designated upon initial recognition ("FVTPL");
iii) Loans and receivables excluding prepayments ("LAR"); and
iv) Other financial liabilities measured at amortised cost ("OL").

	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2013					
Financial assets					
Loans and receivables	-	-	424,484	-	424,484
AFS financial assets	2,509,428	-	-	-	2,509,428
FVTPL financial assets	-	893,520	-	-	893,520
Reinsurance assets	-	-	1,731	-	1,731
Insurance receivables	-	-	26,969	-	26,969
Cash and cash equivalents	-	-	34,404	-	34,404
	2,509,428	893,520	487,588	-	3,890,536
Financial liabilities					
Insurance contract liabilities	-	-	-	3,072,831	3,072,831
Insurance claims liabilities	-	-	-	41,001	41,001
Insurance payables	-	-	-	364,488	364,488
Other payables	-	-	-	89,612	89,612
	-	-	-	3,567,932	3,567,932

31. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2012					
Financial assets					
Loans and receivables	-	-	546,663	-	546,663
AFS financial assets	2,437,881	-	-	-	2,437,881
FVTPL financial assets	-	714,785	-	-	714,785
Reinsurance assets	-	-	3,268	-	3,268
Insurance receivables	-	-	27,995	-	27,995
Cash and cash equivalents	-	-	30,430	-	30,430
	2,437,881	714,785	608,356	-	3,761,022
Financial liabilities					
Insurance contract liabilities	-	-	-	2,803,687	2,803,687
Insurance claims liabilities	-	-	-	36,133	36,133
Insurance payables	-	-	-	348,676	348,676
Other payables	-	-	-	53,789	53,789
	-	-	-	3,242,285	3,242,285

(b) Determination of fair values

The fair values of the Company's financial assets and financial liabilities are determined as follows:

(i) The carrying amounts of financial assets and financial liabilities, such as loans and receivables, insurance receivables, cash and cash equivalents, insurance payables and other payables are reasonable approximation of their fair values due to the relatively short term maturity of these balances;

(ii) The fair values of quoted equities are based on quoted market prices as at the reporting date;

(iii) The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate debt securities are based on indicative market prices;

(iv) The fair values of negotiable instrument of deposits are calculated using the discounted cash flow method based on the maturity of the instruments at discount rates representing the average market rates quoted by at least two licensed banks;

(v) The fair values of equity call options are based on the fair value quoted by a counter party based on a specific valuation model as at the reporting date; and

(vi) The fair values of investments in real estate investment trusts, mutual funds and unit trust funds are based on the net asset values of the underlying funds as at the reporting date.

31. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy

The Company categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Company's valuation techniques for determining the fair value of the financial instruments.

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

Level 1 – Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc) and inputs that are derived from or corroborated by observable market data.

Level 3 – Fair value measurements using significant non market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk.

In determining the fair value of its financial instruments, the Company uses observable market data, when available, and minimises the use of unobservable inputs to the extent possible when determining fair value.

31. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

The following table presents the Company's financial assets that are carried at fair value as at 31 December 2013.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2013				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	721,064	721,064	-	-
- Unquoted	1,944	-	-	1,944
Unit trust funds	230,197	230,197	-	-
Malaysian Government Securities	602,428	-	602,428	-
Government Investment Issues	165,768	-	165,768	-
Corporate debt securities				
- Unquoted	773,738	-	773,738	-
Accrued interest	14,289	-	14,289	-
	2,509,428	951,261	1,556,223	1,944
FVTPL financial assets				
Equity securities				
- Quoted in Malaysia	360,029	360,029	-	-
- Quoted outside Malaysia	1,236	1,236	-	-
Unit trust funds	1,554	1,554	-	-
Malaysian Government Securities	70,846	-	70,846	-
Government Investment Issues	20,809	-	20,809	-
Corporate debt securities				
- Unquoted	212,009	-	212,009	-
Mutual funds				
- Quoted outside Malaysia	224,527	224,527	-	-
Accrued interest	2,510		2,510	-
	893,520	587,346	306,174	-
	3,402,948	1,538,607	1,862,397	1,944

31. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2012				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	679,002	679,002	-	-
- Unquoted	1,944	-	-	1,944
Unit trust funds	90,010	90,010	-	-
Malaysian Government Securities	726,006	-	726,006	-
Government Investment Issues	145,725	-	145,725	-
Corporate debt securities				
- Unquoted	780,776	-	780,776	-
Accrued interest	14,418	-	14,418	-
	2,437,881	769,012	1,666,925	1,944
FVTPL financial assets				
Equity securities				
- Quoted in Malaysia	249,107	249,107	-	-
- Quoted outside Malaysia	2,575	2,575	-	-
Malaysian Government Securities	130,712	-	130,712	-
Government Investment Issues	21,478	-	21,478	-
Corporate debt securities				
- Unquoted	217,294	-	217,294	-
Mutual funds				
- Quoted outside Malaysia	90,700	90,700	-	-
Accrued interest	2,919	-	2,919	-
	714,785	342,382	372,403	-
	3,152,666	1,111,394	2,039,328	1,944

32. RISK MANAGEMENT

(a) Risk management framework

The Board of Directors (the “Board”) of the Company has oversight responsibility for risk management. Industry best practices and governance standards for financial institutions require the Board to establish risk management policies and practices and, in delegating this responsibility to management, to ensure that these policies and practices remain adequate, comprehensive and prudent in light of changing circumstances.

The Board, through the immediate holding company’s Group Audit Committee and Group Risk Management Committee ("GRMC"), is responsible for overseeing the Company’s management of its principal risks. The Board and GRMC delegate accountability for risk taking and risk management to the Chief Executive Officer ("CEO"). The CEO, supported by the Risk Officer and Enterprise Risk Management Committee, established risk policies, guide risk-taking activity, monitor material risk exposures, and develop strategic risk management priorities, thereby continuously shaping and promoting our risk culture throughout the Company.

Risk management policies and practices form an integral part of the Board and Senior Management’s oversight of risks and the Company’s financial position. Accordingly, along with capital management and financial management, risk management is one of the three pillars of the Company’s prudential framework. As such, the Company’s risk policies and practices must be directly aligned with the Company’s capital management and financial management frameworks. The amount of risk the Company assumes, and plans to assume, defines its required consolidated risk-based capital. Conversely, the amount of available capital defines the amount of risk it is prudent to assume. This relationship dictates the need for alignment between capital and risk management.

The Company’s risk taking activities are undertaken with the understanding that risk taking and effective risk management are necessary and integral to achieving strategic objectives and managing business operations.

The Company seeks to strategically optimise risk taking and risk management to support long term revenue and earnings growth, with the ultimate objective of increasing shareholder value. This is done by:

- Capitalising on business opportunities that are aligned with the Company’s overall risk appetite and return expectations;
- Identifying, measuring and assessing, and monitoring and reporting on principal risks taken;
- Proactively executing effective risk controls and mitigation programs

32. RISK MANAGEMENT (CONTINUED)

(b) Regulatory framework

The Company is required to comply with the Financial Services Act 2013 (Act 758) as well as guidelines and circulars issued by BNM

(c) Capital management

The Capital Management Plan is developed and endorsed by the Board. The plan lays out the management actions in response to various Capital Adequacy Ratio (CAR) scenarios. The Company manages its capital with the following objectives:

- To maintain the required level of stability of the Company, thereby providing a degree of security to policyholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulator and stakeholders;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets; and
- To maintain strong and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company's internal target solvency range is above the minimum regulatory capital requirement outlined under Risk-Based Capital Framework ("the Framework") prescribed by BNM at 130%.

The Company has fully complied with its internal target solvency range during the reported financial year.

The capital structure of the Company as at 31 December 2013, as prescribed under the Framework is as follows:

	2013 RM'000	2012 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	150,000	150,000
Retained earnings of the Company*	132,351	270,047
Eligible contract liabilities	854,190	725,550
	1,136,541	1,145,597
Eligible Tier 2 Capital		
Eligible reserves	132,253	197,398
Amounts deducted from capital	(28,627)	-
Total Capital Available	1,240,167	1,342,995

* Only distributable retained earnings of the Company are included in the determination of Total Capital Available.

(d) Insurance risk

Insurance risk is the risk of loss due to actual experience emerging differently than assumed when a product was designed and priced with respect to mortality and morbidity claims, policyholders' behaviour and expenses.

32. RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

The Company has implemented product design and pricing policies and underwriting and claims management policies to manage its insurance risks.

The Company also limits its exposure to loss within the insurance operations through participation in reinsurance arrangements. For insurance contracts issued in 2013, the Company retains a maximum of RM300,000 for mortality risk per life, RM300,000 for accelerated critical illness risk per life and RM200,000 for additional critical illness per life, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance and catastrophe treaties. The Company is neither dependent on a single reinsurer at this moment nor are the operations of the Company substantially dependent upon any reinsurance contract.

The table below sets out the concentration of the actuarial liabilities as at the date of the statement of financial position, gross and net of reinsurance, by class of business.

	Gross		Net	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Whole life	681,111	683,325	681,111	683,325
Endowment	352,764	319,405	352,764	319,405
Term	23,060	26,499	22,969	26,499
Annuity	172,029	192,669	172,029	192,669
Others	858,900	916,627	858,900	916,627
	2,087,864	2,138,525	2,087,773	2,138,525

Sensitivities

The analysis below is performed on plausible movements in key assumptions (with all other assumptions held constant) with resulting impact on gross and net actuarial liabilities, profit before tax and equity. The correlation of assumptions may have a significant effect in determining the ultimate actuarial liabilities, but to demonstrate the impact due to changes in assumptions, assumptions are changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current level of economic assumptions.

32. RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

	Change in assumptions %	Impact on gross actuarial liabilities RM'000	Impact on net actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
31 December 2013					
Mortality/morbidity	+10	12,809	12,802	(12,802)	(10,114)
Discount rate	-1	27,806	27,798	(27,798)	(21,961)
Expenses	+10	5,295	5,295	(5,295)	(4,183)
Lapse and surrender rates	+10	2,844	2,844	(2,844)	(2,247)
31 December 2012					
Mortality/morbidity	+10	14,444	14,444	(14,444)	(11,411)
Discount rate	-1	35,587	35,587	(35,587)	(28,114)
Expenses	+10	6,394	6,394	(6,394)	(5,051)
Lapse and surrender rates	+10	1,300	1,300	(1,300)	(1,027)

* Impact on equity is stated after considering tax effects

In the sensitivity analysis above, the impact from the changes in assumptions in the table above to the Company's profit before tax and equity arise from Non-participating life fund policies. There is no material impact to the Participating life fund within the range of changes in assumptions as the participating nature of the Participating life fund gives the Company the flexibility to adjust the policyholders' bonus or dividends.

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

(e) Credit risk

Credit risk is the risk of loss due to inability or unwillingness of an issuer or borrower to service its debt obligations. The risk arising from lending and investment activities is monitored regularly with respect to single customer limit, exposure to sector type, credit rating and remaining term to maturity, according to the guidelines and limits approved by the Board and within the guidelines issued by BNM.

As at the date of the statement of financial position, the credit exposure of the Company is within the guidelines and limits approved by the Board. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

The Company has minimal exposure to credit risk on unrated Malaysian Government Securities, Government Investment Issues and unquoted corporate debt securities as these are either issued or guaranteed by the Federal Government of Malaysia. All the remaining unquoted corporate debt securities are issued by companies with minimum rating of BBB.

Policy loans are secured against the surrender value of the policies and carry substantially no credit risk. Mortgage loans and staff loans are secured against the properties charged to the Company.

32. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Credit risk in respect of customer balances incurred on non-payment of premiums will only persist during the grace period specified in the policy documents on the expiry of which either the premium is paid or the policy will be terminated.

Fixed and call deposits are placed with financial institutions approved by the Investment Committee of the Company and with international ratings of 'A' or better.

Reinsurance arrangements are maintained with reinsurers with international ratings of 'A' or better.

There has been no significant change in the credit risk objectives, policies and processes in the current financial year as compared to the previous financial year.

The table below shows the Company's maximum exposure to credit risk for the components in the statement of financial position by classifying assets according to the Company's credit rating of counterparties except for the Investment-linked funds' assets, as the Company does not have any direct exposure to credit risk in those assets as the credit risk is borne by the investment-linked policyholders.

The Investment-linked funds are the assets of the investment-linked contracts backing the investment-linked policyholders' account in the insurance contract liabilities.

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32. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired						
	Rating (BBB to AAA)	Not rated	Not subject to credit risk	Past due but not impaired	Past due and impaired	Investment -linked funds	Total
31 December 2013	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
AFS financial assets							
Equity securities	-	-	723,008	-	-	-	723,008
Unit trust funds	-	-	230,197	-	-	-	230,197
Malaysian Government Securities	-	602,428	-	-	-	-	602,428
Government Investment Issues	-	165,768	-	-	-	-	165,768
Corporate debt securities	465,312	308,426	-	-	-	-	773,738
Accrued interest	4,289	10,000	-	-	-	-	14,289
Financial assets at FVTPL							
- designated upon initial recognition							
Equity securities	-	-	-	-	-	361,265	361,265
Unit trust funds	-	-	-	-	-	1,554	1,554
Malaysian Government Securities	-	68,983	-	-	-	1,863	70,846
Government Investment Issues	-	18,358	-	-	-	2,451	20,809
Corporate debt securities	102,038	40,654	-	-	-	69,317	212,009
Mutual funds	-	-	-	-	-	224,527	224,527
Accrued interest	937	1,060	-	-	-	513	2,510
Loans and receivables							
Fixed and call deposits	63,382	-	-	-	-	54,837	118,219
Loans receivable	-	280,801	-	67	364	-	281,232
Other receivables	-	14,719	-	-	-	10,495	25,214
Reinsurance assets	1,370	361	-	-	-	-	1,731
Insurance receivables	-	26,969	-	-	1,056	-	28,025
Cash and cash equivalents	30,020	-	-	-	-	4,384	34,404
Allowance for impairment losses	-	-	-	-	(1,237)	-	(1,237)
	667,348	1,538,527	953,205	67	183	731,206	3,890,536

32. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

31 December 2012	Neither past-due nor impaired: Rating (BBB to AAA) RM'000	Neither past-due nor impaired: Not rated RM'000	Not subject to credit risk RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Investment-linked funds RM'000	Total RM'000
AFS financial assets							
Equity securities	-	-	680,946	-	-	-	680,946
Real estate investment trusts	-	-	-	-	-	-	-
Unit trust funds	-	-	90,010	-	-	-	90,010
Malaysian Government Securities	-	726,006	-	-	-	-	726,006
Government Investment Issues	-	145,725	-	-	-	-	145,725
Corporate debt securities	456,814	323,962	-	-	-	-	780,776
Accrued interest	3,850	10,568	-	-	-	-	14,418
Financial assets at FVTPL - designated upon initial recognition							
Equity securities	-	-	-	-	-	251,682	251,682
Malaysian Government Securities	-	127,718	-	-	-	2,994	130,712
Government Investment Issues	-	20,976	-	-	-	502	21,478
Corporate debt securities	103,433	55,154	-	-	-	58,707	217,294
Mutual funds	-	-	-	-	-	90,700	90,700
Accrued interest	886	1,576	-	-	-	457	2,919
Loans and receivables							
Fixed and call deposits	163,610	-	-	-	-	53,400	217,010
Loans receivable	-	312,535	-	42	356	-	312,933
Other receivables	-	13,936	-	-	-	2,965	16,901
Reinsurance assets	2,685	583	-	-	-	-	3,268
Insurance receivables	-	27,978	-	-	1,063	-	29,041
Cash and cash equivalents	27,918	-	-	-	-	2,512	30,430
Allowance for impairment losses	-	-	-	-	(1,227)	-	(1,227)
	759,196	1,766,717	770,956	42	192	463,919	3,761,022

32. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Age analysis of financial assets past-due but not impaired

	< 30days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2013						
Loans receivable	-	-	-	-	67	67
31 December 2012						
Loans receivable	-	-	-	-	42	42

32. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Impaired financial assets

For assets to be classified as “past due and impaired”, contractual payments must be in arrears for more than three months based on objective evidence that an impairment loss has been incurred. The Company records impairment allowance for loans receivable and insurance receivables in a separate allowance for impairment loss account. A reconciliation of the allowance for impairment losses for loans receivable and insurance receivables is as follows:

	Loans receivable RM’000	Insurance receivables RM’000	Total RM’000
At 1 January 2013	181	1,046	1,227
Allowance for impairment loss during the financial year	-	10	10
At 31 December 2013	181	1,056	1,237
At 1 January 2012	181	1,064	1,245
Reversal of allowance for impairment loss during the financial year	-	(18)	(18)
At 31 December 2012	181	1,046	1,227

(f) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Market risk is managed through the segmentation of product liabilities with similar characteristics and the establishment of investment policies and goals for each segment. The Company’s investment policies and goals reflect the asset mix, asset quality, sector mix, currency mix, interest rate risk exposure and liquidity targets.

There has been no significant change in the market risk objectives, policies and processes in the current financial year as compared to the previous financial year.

32. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(i) 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 manages the risk through matching the currency of the assets with the currency of the liabilities which these assets support. The Company does not have direct exposure to foreign currency risk except for certain foreign currency denominated investment linked-business, of which the foreign currency risk is borne by the policyholders.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises due to differences in pricing or tenure of investments and liabilities. Interest rate risk is managed by the liability side, by limiting the interest rate guarantees that are embedded in the insurance plans that are marketed. The interest rate risk is also managed through setting the appropriate asset benchmark reflecting the liability profile and the availability of suitable instruments in the investment market. The participating nature of the Participating life fund gives the Company the flexibility to adjust the policyholders' bonus or dividends in the event of persistently high or low interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit before tax Increase/(decrease)		Impact on equity* (Decrease)/increase	
	2013	**2012**	**2013**	**2012**
Change in variable:	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Interest rate				
+100 basis point	7,840	6,634	(658)	(8,926)
- 100 basis point	(12,190)	(11,739)	(1,992)	6,508

* Impact on equity is stated after considering tax effects

32. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(ii) Interest rate risk (continued)

The above impact to the Company's equity arose from the investments in fixed income securities which are classified as AFS and FVTPL financial assets and the actuarial liabilities of the Non-participating funds; the impact to the Company's profit before tax arose from fixed income securities which are classified as FVTPL financial assets and the actuarial liabilities of the Non-participating funds. The impact arising from changes in interest rate risk to fixed income securities and insurance contract liabilities of the Participating life fund of the Company is retained in the insurance contract liabilities.

(iii) Price risk

The Company's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of change in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company has acknowledged the inherent risk of investing in equities. The Board has set internal limits for maximum equity exposure, industry type exposure and individual stock exposure, which are consistent with BNM's guidelines, and has also imposed daily trading limits. In addition, the Investment Committee at its monthly meeting discusses the economic and market outlook, reviews transactions and deliberates on further equity allocation. The participating nature of the Participating life fund gives the Company the flexibility to adjust the policyholders' bonus or dividends in the event of persistently high or low equity returns.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit before tax Increase/(decrease)		Impact on equity* Increase/(decrease)	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Change in variable:				
Market price				
+15%	-	-	20,912	17,954
- 15%	-	-	(20,912)	(17,954)

* Impact on equity is stated after considering tax effects

32. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(iii) Price risk (continued)

The above impact to the Company's equity arose from the Non-participating life fund and Shareholders' fund investments in equity securities which are classified as AFS financial assets. The impact arising from changes in price risk to equity securities of the Participating life fund is retained in the insurance contract liabilities.

(g) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This risk is managed via a three-year planning process to ascertain operational cash flow requirements and maintaining a reasonable level of liquid assets to meet unexpected cash flow. In addition, the Company has large holdings of government bonds that can be liquidated at short notice to meet unexpected liquidity needs.

It is unusual for a Company transacting insurance business to predict the requirements of funding with absolute certainty as the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amount and maturities in respect of insurance contract liabilities are thus based on management's estimate based on statistical techniques and past experiences.

There has been no significant change in the liquidity risk objectives, policies and processes in the current financial year as compared to the previous financial year.

The table below analyses the Company's financial assets and financial liabilities into their relevant maturity groups based on the remaining undiscounted contractual obligations.

All liabilities are presented on a contractual cash flow basis except for the insurance contract liabilities which are presented based on their expected cash flows.

The Investment-linked funds are the assets of the investment-linked contracts backing the investment-linked policyholders' account in the insurance contract liabilities. Investment-linked fund liabilities are repayable or transferable upon notice by policyholders and are disclosed separately under the "Investment-linked funds" column.

32. RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

31 December 2013	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Investment-linked funds RM'000	Total RM'000
Equity securities	1,084,273	-	-	-	-	723,008	361,265	1,084,273
Malaysian Government Securities	673,274	34,296	66,573	89,534	748,470	-	1,863	940,736
Government Investment Issues	186,577	11,714	44,232	47,947	137,063	-	2,451	243,407
Corporate debt securities	985,747	131,065	256,491	133,993	646,883	-	69,317	1,237,749
Unit trust funds	231,751	-	-	-	-	230,197	1,554	231,751
Mutual funds	224,527	-	-	-	-	-	224,527	224,527
Accrued interest								
- AFS financial assets	14,289	14,289	-	-	-	-	-	14,289
- FVTPL financial assets	2,510	1,997	-	-	-	-	513	2,510
Loans receivable	281,051	452	691	633	1,473	277,983	-	281,232
Fixed and call deposits	118,219	9,200	60,285	-	-	-	54,837	124,322
Other receivables	25,214	14,329	-	-	390	-	10,495	25,214
Reinsurance assets	1,731	1,731	-	-	-	-	-	1,731
Insurance receivables	26,969	26,969	-	-	-	-	-	26,969
Cash and cash equivalents	34,404	30,020	-	-	-	-	4,384	34,404
Total financial and insurance assets	3,890,536	276,062	428,272	272,107	1,534,279	1,231,188	731,206	4,473,114
Insurance contract liabilities	3,072,831	422,173	264,211	227,400	4,942,722	641	666,613	6,523,760
Insurance claims liabilities	41,001	41,001	-	-	-	-	-	41,001
Insurance payables	364,488	364,488	-	-	-	-	-	364,488
Other payables	89,612	45,627	-	-	-	-	43,985	89,612
Total financial and insurance liabilities	3,567,932	873,289	264,211	227,400	4,942,722	641	710,598	7,018,861

32. RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

31 December 2012	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Investment-linked funds RM'000	Total RM'000
Equity securities	932,628	-	-	-	-	680,946	251,682	932,628
Malaysian Government Securities	856,718	40,189	84,649	92,855	1,038,285	-	2,994	1,258,972
Government Investment Issues	167,203	6,672	38,506	20,723	140,372	-	502	206,775
Corporate debt securities	998,070	117,919	232,030	229,717	606,547	-	58,707	1,244,920
Unit trust funds	90,010	-	-	-	-	90,010	-	90,010
Mutual funds	90,700	-	-	-	-	-	90,700	90,700
Accrued interest								
- AFS financial assets	14,418	14,418	-	-	-	-	-	14,418
- FVTPL financial assets	2,919	2,462	-	-	-	-	457	2,919
Loans receivable	312,752	309,946	327	325	2,154	-	-	312,752
Fixed and call deposits	217,010	111,856	314	60,128	-	-	53,400	225,698
Other receivables	16,901	13,546	-	-	390	-	2,965	16,901
Reinsurance assets	3,268	3,268	-	-	-	-	-	3,268
Insurance receivables	27,995	27,995	-	-	-	-	-	27,995
Cash and cash equivalents	30,430	27,918	-	-	-	-	2,512	30,430
Total financial and insurance assets	3,761,022	676,189	355,826	403,748	1,787,748	770,956	463,919	4,458,386
Insurance contract liabilities	2,803,687	304,513	248,710	241,167	4,779,535	-	432,417	6,006,342
Insurance claims liabilities	36,133	36,133	-	-	-	-	-	36,133
Insurance payables	348,676	348,676	-	-	-	-	-	348,676
Other payables	53,789	38,085	-	-	-	-	15,704	53,789
Total financial and insurance liabilities	3,242,285	727,407	248,710	241,167	4,779,535	-	448,121	6,444,940

32. RISK MANAGEMENT (CONTINUED)

(h) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, risk management policies and procedures, systems' failures, human performance failures or from external events. The Company seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Company. The Company uses an established programme of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls.

33. CAPITAL AND OTHER COMMITMENTS

	2013 RM'000	2012 RM'000
Capital expenditure commitments		
Property and equipment		
- Authorised but not provided for	8,523	-
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	40,000	-

The Company is committed the pay up to RM40 million under the terms of bancassurance agreement in respect of business model fee and annual fees. The business model fee which is due in 2014 will be paid and capitalised as intangible assets upon settlement, whilst the annual fees will be expensed off to the profit or loss in the year of settlement.

34. INSURANCE FUNDS

The Company's activities are organised by funds and segregated into Life fund, Investment-linked funds and Shareholders' fund in accordance with the Financial Services Act 2013.

The Company's statement of financial position and statement of profit or loss have been further analysed by funds as follows:

Statement of Financial Position by Funds

		Insurance funds			
31 December 2013	**Shareholders' fund RM'000**	**Life fund RM'000**	**Investment-linked funds RM'000**	**Elimination RM'000**	**Total RM'000**
Assets					
Property and equipment	-	16,113	-	-	16,113
Investment properties	-	45,586	-	-	45,586
Intangible assets	28,627	-	-	-	28,627
Loans and receivables	178,830	352,749	65,332	(171,991)	424,920
Available-for-sale financial assets	187,274	2,334,076	-	(11,922)	2,509,428
Fair value through profit or loss financial assets	-	232,030	661,490	-	893,520
Reinsurance assets	-	1,731	-	-	1,731
Insurance receivables	-	26,969	-	-	26,969
Cash and cash equivalents	8,143	21,877	4,384	-	34,404
Total assets	402,874	3,031,131	731,206	(183,913)	3,981,298
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	204,070	-	-	-	204,070
Other reserves	16,487	-	-	(1,442)	15,045
Total equity	370,557	-	-	(1,442)	369,115
Insurance contract liabilities	-	2,406,218	676,613	(10,000)	3,072,831
Insurance claims liabilities	-	41,001	-	-	41,001
Deferred tax liabilities	24,590	10,881	6,681	(480)	41,672
Insurance payables	-	364,488	-	-	364,488
Current tax liabilities	1,529	(2,877)	3,927	-	2,579
Other payables	6,198	211,420	43,985	(171,991)	89,612
Total equity, policyholders' funds and liabilities	402,874	3,031,131	731,206	(183,913)	3,981,298

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34. INSURANCE FUNDS (CONTINUED)

Statement of Financial Position by Funds (continued)

		Insurance funds			
31 December 2012	**Shareholders' fund RM'000**	**Life fund RM'000**	**Investment-linked funds RM'000**	**Elimination RM'000**	**Total RM'000**
Assets					
Property and equipment	-	9,597	-	-	9,597
Investment properties	-	48,897	-	-	48,897
Loans and receivables	234,895	475,664	56,365	(219,561)	547,363
Available-for-sale financial assets	320,602	2,127,865	-	(10,586)	2,437,881
Fair value through profit or loss financial assets	-	309,743	405,042	-	714,785
Reinsurance assets	-	3,268	-	-	3,268
Insurance receivables	-	27,995	-	-	27,995
Cash and cash equivalents	4,204	23,714	2,512	-	30,430
Total assets	559,701	3,026,743	463,919	(230,147)	3,820,216
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	341,766	-	-	-	341,766
Other reserves	27,877	-	-	(440)	27,437
Total equity	519,643	-	-	(440)	519,203
Insurance contract liabilities	-	2,371,271	442,416	(10,000)	2,803,687
Insurance claims liabilities	-	36,133	-	-	36,133
Deferred tax liabilities	27,912	16,157	3,648	(146)	47,571
Insurance payables	-	348,676	-	-	348,676
Current tax liabilities	10,971	(1,965)	2,151	-	11,157
Other payables	1,175	256,471	15,704	(219,561)	53,789
Total equity, policyholders' funds and liabilities	559,701	3,026,743	463,919	(230,147)	3,820,216

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

34. INSURANCE FUNDS (CONTINUED)

Statement of Profit or Loss by Funds

2013	Shareholders' fund RM'000	Insurance funds: Life fund RM'000	Insurance funds: Investment-linked funds RM'000	Elimination RM'000	Total RM'000
Premium income					
Gross premiums	-	434,741	250,524	-	685,265
Premiums ceded to reinsurers	-	(11,013)	-	-	(11,013)
Net premiums	-	423,728	250,524	-	674,252
Investment income	9,532	126,829	14,961	-	151,322
Net realised gains	10,464	87,378	-	-	97,842
Net fair value (losses)/ gains	(15)	(8,168)	77,940	-	69,757
Fee income	-	8,369	-	(6,354)	2,015
Other operating income	-	42	1,102	-	1,144
Total revenue	19,981	638,178	344,527	(6,354)	996,332
Gross benefits and claims paid	-	(322,772)	(101,481)	-	(424,253)
Claims ceded to reinsurers	-	1,525	-	-	1,525
Gross change in contract liabilities	-	(88,611)	(234,197)	-	(322,808)
Net claims	-	(409,858)	(335,678)	-	(745,536)
Fee and commission expenses	-	(75,461)	-	-	(75,461)
Investment expenses	(500)	(7,423)	-	-	(7,923)
Management expenses	(3,477)	(73,460)	(8,373)	6,354	(78,956)
Other operating expenses	(1,316)	(9,681)	(476)	-	(11,473)
Other expenses	(5,293)	(166,025)	(8,849)	6,354	(173,813)
Profit from operations	14,688	62,295	-	-	76,983
Transfer from/(to) revenue account	62,295	(62,295)	-	-	-
Profit before taxation	76,983	-	-	-	76,983
Taxation	(14,669)	-	-	-	(14,669)
Net profit for the financial year	62,314	-	-	-	62,314

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34. INSURANCE FUNDS (CONTINUED)

Statement of Profit or Loss by Funds (continued)

		Insurance funds			
2012	**Shareholders' fund RM'000**	**Life fund RM'000**	**Investment-linked funds RM'000**	**Elimination RM'000**	**Total RM'000**
Premium income					
Gross premiums	-	404,882	120,484	(10,000)	515,366
Premiums ceded to reinsurers	-	(10,499)	-	-	(10,499)
Net premiums	-	394,383	120,484	(10,000)	504,867
Investment income	12,502	123,393	11,951	-	147,846
Net realised gains	3,399	62,786	-	-	66,185
Net fair value (losses)/ gains	(187)	(2,643)	38,559	-	35,729
Fee income	-	5,084	-	(5,084)	-
Other operating income	-	83	850	-	933
Total revenue	15,714	583,086	171,844	(15,084)	755,560
Gross benefits and claims paid	-	(293,962)	(81,324)	-	(375,286)
Claims ceded to reinsurers	-	5,715	-	-	5,715
Gross change in contract liabilities	-	(103,440)	(76,384)	10,000	(169,824)
Net claims	-	(391,687)	(157,708)	10,000	(539,395)
Fee and commission expenses	-	(73,231)	-	-	(73,231)
Investment expenses	(676)	(7,502)	-	-	(8,178)
Management expenses	(520)	(56,614)	(6,968)	5,084	(59,018)
Other operating expenses	(1,206)	(10,305)	(7,168)	-	(18,679)
Other expenses	(2,402)	(147,652)	(14,136)	5,084	(159,106)
Profit from operations					
Transfer from/(to) revenue account	13,312	43,747	-	-	57,059
Profit before taxation	43,747	(43,747)	-	-	-
Taxation	57,059	-	-	-	57,059
Net profit for the financial year	(10,727)	-	-	-	(10,727)
	46,332	-	-	-	46,332

34. INSURANCE FUNDS (CONTINUED)

Information on cash flows by Funds

		Insurance funds		
	Shareholders' fund	Life fund	Investment-linked funds	Total
2013	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash flows from:				
Operating activities	3,939	230,979	1,872	236,790
Investing activities	-	(32,806)	-	(32,806)
Financing activity	-	(200,010)	-	(200,010)
Net increase/(decrease) in cash and cash equivalents	3,939	(1,837)	1,872	3,974
At beginning of financial year	4,204	23,714	2,512	30,430
At end of financial year	8,143	21,877	4,384	34,404
2012				
Cash flows from:				
Operating activities	3,025	3,275	1,445	7,745
Investing activities	-	(1,575)	-	(1,575)
Net increase in cash and cash equivalents	3,025	1,700	1,445	6,170
At beginning of financial year	1,179	22,014	1,067	24,260
At end of financial year	4,204	23,714	2,512	30,430