ETIQA LIFE INSURANCE BERHAD
(1239279 P)
(Incorporated in Malaysia)

Directors' Report, Corporate Governance Disclosure and Audited Financial Statements
31 December 2018

1239279 P

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

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ETIQA LIFE INSURANCE BERHAD
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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial period from 19 July 2017 (date of incorporation) to 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the underwriting of life insurance and investment-linked businesses. The Company was granted the licence by Bank Negara Malaysia on 1 January 2018.

RESULTS

	RM'000
Net profit for the financial period from 19 July 2017 (date of incorporation) to 31 December 2018	234,987

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

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

DIVIDENDS

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial period from 19 July 2017 (date of incorporation) to 31 December 2018, of 800% on 100,000,000 ordinary shares, amounting to a dividend payable of RM800,000,000 (800 sen per ordinary share) will be proposed for shareholder's approval. The financial statements for the current financial period do no reflect such proposed dividends. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained earnings in the financial period ending 31 December 2019.

MAYBANK GROUP EMPLOYEES' SHARE SCHEME ("ESS")

The Maybank Group ESS is governed by the by-laws approved by the shareholders of the ultimate holding company, Malayan Banking Berhad ("MBB"), at an Extraordinary General Meeting held on 13 June 2011. The ESS was implemented on 23 June 2011 and had expired on 23 June 2018. It is in force for a maximum period of seven (7) years from the effective date and is administered by the ESS Committee. The ESS consists of two (2) types of performance-based awards in the form of Employee Share Option Scheme ("ESOS") and Restricted Share Unit ("RSU").

MAYBANK GROUP EMPLOYEE'S SHARE GRANT PLAN ("ESGP") AND CASH-SETTLED PERFORMANCE-BASED EMPLOYEE'S SHARE GRANT PLAN ("CESGP")

The Maybank Group ESGP is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 5 April 2017. It was awarded to the participating Maybank Group employees who fulfill the eligibilty criteria. The ESGP was implemented on 14 December 2018 and it is in force for a period of seven (7) years from the effective date and is administered by the ESGP Committee. The ESGP consists of two (2) types of performance-based awards namely as Employees' Share Grant Plan of the Maybank Group ("ESGP Share") and Maybank Group Cash-settled Performance-based Employees' Share Grant Plan ("CESGP").

The maximum number of ordinary shares in MBB available under the ESGP should not exceed 3.5% of the total number of issued and paid-up capital of MBB at any point of time during the duration of the scheme.

DIRECTORS

The directors of the Company in office since the date of incorporation to the date of this report are:

Datuk Mohd Najib Abdullah (Chairman)
(appointed as Director on 1 July 2018 and redesignated as Chairman on 1 January 2019)
Mr. Philippe Pol Arthur Latour (Vice Chairman) (appointed on 1 January 2018)
Dato' Johan Ariffin (appointed on 1 January 2018)
Mr. Loh Lee Soon (appointed on 1 January 2018)
Mr. Frank J.G Van Kempen (appointed on 1 January 2018)
Puan Nora Abd. Manaf (appointed on 1 January 2018)
Mr. Wong Pakshong Kat Jeong Colin Stewart (appointed on 1 January 2018)
Datuk R. Karunakaran
(appointed as Director and Chairman on 1 January 2018; resigned as Director and Chairman on 31 December 2018)
Encik Kamaludin Ahmad (First Director) (resigned on 1 January 2018)
Encik Zaharudin Daud (First Director) (resigned on 1 January 2018)

Pursuant to Section 205(3) of the Companies Act 2016, the following directors shall retire at the forthcoming Annual General Meeting ("AGM") of the Company and being eligible, offer themselves for re-election :

Datuk Mohd Najib Abdullah
Mr. Philippe Pol Arthur Latour
Dato' Johan Ariffin
Mr. Loh Lee Soon
Mr. Frank J.G Van Kempen
Puan Nora Abd. Manaf
Mr. Wong Pakshong Kat Jeong Colin Stewart

DIRECTORS' BENEFITS

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

Since the date of incorporation, no director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in Note 26 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INDEMNITY

The Company maintained on group basis, a Directors' and Officers' Liability ("D&O") Insurance against any legal liability incurred by the Directors in the discharge of their duties while holding office for the Company. The Directors shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

Premium paid for D&O policy

Limit of liability - Group Policy	**2018 Gross Premium (RM'000)**
RM 250 million	1,135

DIRECTORS' INTERESTS

According to the register of directors' shareholdings kept by the Company under Section 59 of the Companies Act 2016, the interests of directors in office at the end of the financial period in shares, RSU and ESGP of the Ultimate Holding Company, MBB, during the financial period from 19 July 2017 (date of incorporation) to 31 December 2018 were as follows:

	Number of Ordinary Shares				
	At 19.7.2017/ Date of Appointment	Issued pursuant to RSU	Issued pursuant to DRP*	Sold	At 31.12.2018/
Ultimate Holding Company					
Direct interest:					
Dato' Johan Ariffin	305,162	-	3,467	-	308,629
Datuk Mohd Najib Abdullah	3,839	-	43	-	3,882
Puan Nora Abd. Manaf	11,496	66,702	-	(78,000)	198
Mr.Loh Lee Soon	1,000	-	-	-	1,000

*DRP = Dividend Reinvestment Plan

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DIRECTORS' INTERESTS (CONTD.)

According to the register of directors' shareholdings kept by the Company under Section 59 of the Companies Act 2016, the interests of directors in office at the end of the financial period in shares, RSU and ESGP of the Ultimate Holding Company, MBB, during the financial period from 19 July 2017 (date of incorporation) to 31 December 2018 were as follows (Contd.):

			Number of RSU of ordinary shares			
	Grant date	Granted	Outstanding as at 1.1.2018	Vested during the financial period	Not vested during the financial period	Outstanding as at 31.12.2018
Puan Nora Abd. Manaf	30.04.2015	-	66,702	(66,702)	-	-

During the financial period, the Ultimate Holding Company has awarded the ESGP Shares to the following director:

	Award date	Number of ESGP shares awarded
Puan Nora Abd. Manaf	14.12.2018	104,000

Other than as disclosed above, none of the directors in office at the end of the financial period had any interest in shares of the Company or its related corporations during the financial period from 19 July 2017 (date of incorporation) to 31 December 2018.

CORPORATE GOVERNANCE

The Company has complied with the prescriptive requirements of, and adopted Management practices that are consistent with the principles prescribed under Bank Negara Malaysia ("BNM") Policy Document on Corporate Governance as disclosed from page 8 to 26.

FINANCIAL HOLDING COMPANY

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

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

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

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

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

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

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

   (i) Any charge on the assets of the Company which has arisen since the date of incorporation which secures the liabilities of any other person; or

   (ii) Any contingent liability of the Company which has arisen since the date of incorporation.

(f) In the opinion of the directors:

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

OTHER STATUTORY INFORMATION (CONTD.)

(f) In the opinion of the directors (Contd.):

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

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

SIGNIFICANT EVENT

There were no significant events which have occurred during the financial period other than disclosed in Note 1 to the financial statements.

SUBSEQUENT EVENT

There were no material events subsequent to the end of the financial period that require disclosure or adjustment to the financial statements.

ETIQA LIFE INSURANCE BERHAD
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AUDITORS

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

The auditors' remuneration are as disclosed in Note 25 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 14 February 2019.

DATUK MOHD NAJIB ABDULLAH

LOH LEE SOON

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CORPORATE GOVERNANCE DISCLOSURES

(1) INTRODUCTION

The Board of Directors ("the Board") of Etiqa Life Insurance Berhad ("the Company"), a wholly-owned subsidiary of Maybank Ageas Holdings Berhad, the immediate holding company ("MAHB") [collectively referred to as ("the Group")] acknowledges the importance of robust and sound Corporate Governance ("CG") Framework in promoting integrity and transparency throughout the Group. Amidst an increasing challenging operating environment, the Board continuously strives to refine the Company's CG practices and processes in ensuring high standards of transparency, integrity and honesty.

The Company's CG Framework is premised upon the following statutory provisions, best practices and guidelines:

(i) Companies Act 2016; and
(ii) Policy on CG issued by Bank Negara Malaysia on 3 August 2016 ("BNM CG Policy").

Disclosures in this section are pursuant to Paragraph 22 of the BNM CG Policy.

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT

(a) Board Composition

Currently, the Board consists of seven (7) Directors, comprising:
(i) One (1) Executive Director ("ED");
(ii) Two (2) Non-Independent Non-Executive Directors ("NINED"); and
(iii) Four (4) Independent Non-Executive Directors ("INED").

The Composition of the Board meets the requirement of having a majority of independent directors as set out in the BNM CG Policy. Datuk R. Karunakaran, an INED, ceased as Chairman of the Board with effect from 31 December 2018 and was succeeded by Datuk Mohd Najib Abdullah, an INED with effect from 1 January 2019, while Puan Nora Abd. Manaf is the only ED on the Board and the two (2) NINEDs are nominees of Ageas Insurance International N.V. ("Ageas"), a shareholder of MAHB.

The Board is committed in ensuring diversity and inclusiveness in its composition and deliberations and the Company embraces the proposition that having a diverse Board would have a positive, value-added impact on the Company. In this regard, the Board considers diversity from a number of different aspects, including gender, age, cultural and educational background, nationality, professional experience, skills, knowledge and length of service.

The Board meets on bi-monthly basis, and the meeting dates are scheduled well in advance (before the commencement of each financial period) to enable the Directors to plan ahead. When required, the Board will meet on ad hoc basis to consider urgent matters. All Directors attended at more than 75% of Board meeting held during the financial period.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(a) Board Composition (Contd.)

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

Members of the Board	Designation	Number of Board Meetings attended	%
Datuk R. Karunakaran* *(Chairman)* #	INED	8/8	100
Mr. Philippe Pol Arthur Latour* *(Vice Chairman)*	NINED	7/8	88
Puan Nora Abd. Manaf*	ED	6/8	75
Mr. Frank J.G. Van Kempen*	NINED	8/8	100
Dato' Johan Ariffin*	INED	8/8	100
Mr Loh Lee Soon*	INED	8/8	100
Mr. Wong Pakshong Kat Jeong Colin Stewart*	INED	8/8	100
Datuk Mohd Najib Abdullah**^	INED	4/4	100
Encik Kamaludin Ahmad+	First Director	-	-
Encik Zaharudin Daud+	First Director	-	-

* appointed on 1 January 2018
** appointed on 1 July 2018
\+ resigned on 1 January 2018
\# resigned as Director and Chairman on 31 December 2018
^ appointed as Chairman on 1 January 2019

Profile of Directors

Name/Designation/Age/ Nationality	Background/ Experience	Other Directorship within the Group
Datuk R. Karunakaran Independent Non-Executive Director Chairman 68 years of age Malaysian *(resigned as Director and Chairman w.e.f. 31 December 2018)*	Public Administration	• Chairman of Maybank Ageas Holdings Berhad • Chairman of Etiqa General Insurance Berhad *(resigned as Director and Chairman w.e.f. 31 December 2018)*

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(a) Board Composition (Contd.)

Profile of Directors (Contd.)

Name/Designation/Age/ Nationality	Background/ Experience	Other Directorship within the Group
Mr. Philippe Pol Arthur Latour Non-Independent Non-Executive Director Vice-Chairman 59 years of age Belgian	Insurance	• Director of Etiqa General Insurance Berhad • Director of Etiqa Family Takaful Berhad • Director of Etiqa General Takaful Berhad
Puan Nora Abd. Manaf Executive Director 54 years of age Malaysian	Corporate Management	• Director of Etiqa General Insurance Berhad
Mr. Frank J.G. Van Kempen Non-Independent Non-Executive Director 51 years of age Dutch	Insurance	• Director of Etiqa General Insurance Berhad • Director of Etiqa Insurance Pte Ltd (Incorporated in Singapore) • Director of Etiqa Life International (L) Ltd (Incorporated in F.T. Labuan) • Director of Etiqa Offshore Insurance (L) Ltd (incorporated in F.T. Labuan)
Dato' Johan Ariffin Independent Non-Executive Director 59 years of age Malaysian	Property Development & Banking	• Director of Maybank Ageas Holdings Berhad • Director of Etiqa General Insurance Berhad • Director of Etiqa Family Takaful Berhad • Director of Etiqa General Takaful Berhad
Mr. Loh Lee Soon Independent Non-Executive Director 63 years of age Malaysian	Technology & Finance	• Director of Etiqa General Insurance Berhad

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(a) Board Composition (Contd.)

Profile of Directors (Contd.)

Name/Designation/Age/ Nationality	Background/ Experience	Other Directorship within the Group
Mr. Wong Pakshong Kat Jeong Colin Stewart Independent Non-Executive Director 59 years of age Singaporean	Insurance	• Director of Etiqa Family Takaful Berhad • Director of Etiqa Insurance Pte Ltd (incorporated in Singapore)
Datuk Mohd Najib Abdullah Independent Non-Executive Director 58 years of age Malaysian *(appointed as Chairman w.e.f. 1 January 2019)*	Banking & Insurance	• Director of Maybank Ageas Holdings Berhad • Director of Etiqa General Insurance Berhad *(appointed as Chairman w.e.f. 1 January 2019)*

Detailed profile of each Director is available on the Group's corporate website (www.etiqa.com.my). Directors' interests in shares and share options in the ultimate holding company, Malayan Banking Berhad ("MBB" or "Maybank") are disclosed in the Directors' Report that accompanies the Company's financial statements for the financial period ended 31 December 2018 ("FPE 2018").

(b) Roles and Responsibilities of the Board

The business and affairs of the Company are managed under the direction and oversight of the Board, which also has the responsibility to periodically review and approve the overall strategies, business, organisation and significant policies of the Company. The Board also sets the core values, adopts proper standards to ensure that the Company operates with integrity and complies with the relevant rules and regulations.

The roles and responsibilities of the Board are set out in the Company's Board Charter which is available on the Group's corporate website (www.etiqa.com.my).

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(c) Board Committees Composition and Roles and Responsibilities

The Company leveraged on Group Board Committees at MAHB, which MAHB Board had established to assist the Board in carrying out effective oversight of the operations and business affairs of the Company, namely:

(i) Nomination and Remuneration Committee;
(ii) Audit Committee of the Board;
(iii) Risk Management Committee;
(iv) Investment Committee;
(v) Board Oversight Committee of Information Technology; and

To carry out the oversight function on the Company's property development activities, the Board is assisted by:

(vi) Board Oversight Committee for Land Development.

(i) Nomination and Remuneration Committee

The Nomination and Remuneration Committee ("NRC") was established on 1 September 2018. Prior to this, the Company leveraged on the Group NRC at Maybank.

NRC consists of a majority of INEDs and chaired by an INED.

The primary objectives of NRC are to establish a documented, formal and transparent procedure for the nomination and appointment of new directors, Chief Executive Officer ("CEO"), Shariah Committee members, senior management and Company Secretary.

The Board via the NRC assesses the independence of INEDs prior to their appointments and re-appointments as part of the annual Fit and Proper Assessment exercise. Pursuant to the recommendation of the NRC based on the assessment undertaken for the financial period, the Board is satisfied that all the INEDs of the Board have met the independence criteria set out under the BNM CG Policy as well as Maybank's Directors' Independence Policy adopted by the Group. NRC engaged a consultant firm to conduct the annual Board Effectiveness Evaluation on the overall effectiveness of the Board and individual Directors.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(c) Board Committees Composition and Roles and Responsibilities (Contd.)

(i) Nomination and Remuneration Committee (Contd.)

NRC plays a major role in the recruitment and selection process of potential candidates, which includes procuring from time to time the curriculum vitae of prospective candidates discreetly to ensure that the Board will always have a steady pool of talent whenever there is a need to appoint new directors, not only to ensure continuity in meeting its long term goals but also to ensure that the knowledge, experience and skillset of the Board members would be well suited to meet the demands of the ever-changing landscape of the insurance industry.

In addition, NRC is also responsible to provide a formal and transparent procedure in developing remuneration policies for directors, CEO and senior management and ensuring compensation is competitive and consistent with the Group's culture, objectives and strategy but most importantly, the industry standards.

The roles and responsibilities of NRC are set out in its Terms of Reference which are available on the Group's corporate website (www.etiqa.com.my).

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

Members of the NRC	Designation	Number of NRC Meetings attended	%
Datuk Mohd Najib Abdullah (Chairman)	INED	2/2	100
Mr. Gary Lee Crist[1]	NINED	2/2	100
Dato' Johan Arifin	INED	2/2	100

[1] Director of MAHB

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(c) Board Committees Composition and Roles and Responsibilities (Contd.)

(ii) Audit Committee of the Board

The Audit Committee of the Board ("ACB") consists of a majority of INEDs and chaired by an INED.

ACB supports the Board in ensuring reliable and transparent financial reporting, oversees the effectiveness of the internal audit functions, review related-party transactions and conflicts of interest situations, access the suitability, objectivity and independence of the Group's appointed external auditors and independently assess the integrity of organisational wide management practices through the review of audit findings raised by the internal auditors, external auditors and/or regulators, ensuring that corrective actions, where necessary, are taken in a timely manner to ensure the Group's operations run in an effective and efficient manner as well as to safeguard Group's assets and stakeholders' interests.

The roles and responsibilities of ACB are set out in its Terms of Reference which are available on the Group's corporate website (www.etiqa.com.my).

The composition of ACB and the attendance of its members at meetings during the financial period are as follows:

Members of the ACB	**Designation**	**Number of ACB Meetings attended**	**%**
Mr. Loh Lee Soon (Chairman)	INED	8/8	100
Mr. Gary Lee Crist[1]	NINED	7/8	88
Mr. Koh Heng Kong[2]	INED	8/8	100
Mr. Wong Pakshong Kat Jeong Colin Stewart	INED	8/8	100

[1] Director of MAHB

[2] Director of Etiqa General Insurance Berhad and Etiqa General Takaful Berhad, wholly-owned subsidiaries of MAHB.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(c) Board Committees Composition and Roles and Responsibilities (Contd.)

(iii) Risk Management Committee

The Risk Management Committee ("RMC") consists of a majority of INEDs and chaired by an INED.

RMC assists the Board in ensuring that the risk exposures and outcomes affecting the Group are effectively managed and addressed by the Board. More specifically, the RMC is responsible for formulating policies and frameworks to identify, monitor, manage and control material risks impacting the Group under the key risk categories of financial, insurance, operational and enterprise risks.

The roles and responsibilities of RMC are set out in its Terms of Reference which are available on the Group's corporate website (www.etiqa.com.my).

The composition of RMC and the attendance of its members at meetings during the financial period are as follows:

Members of the RMC	Designation	Number of RMC Meetings attended	%
Mr. Koh Heng Kong[1] (Chairman)	INED	9/9	100
Mr. Gary Lee Crist[2]	NINED	8/9	89
Mr. Wong Pakshong Kat Jeong Colin Stewart	INED	9/9	100

[1] Director of Etiqa General Insurance Berhad and Etiqa General Takaful Berhad, wholly-owned subsidiaries of MAHB.

[2] Director of MAHB

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(c) Board Committees Composition and Roles and Responsibilities (Contd.)

(iv) Investment Committee

The Investment Committee ("IC") consists of a majority of EDs and chaired by an ED.

The Board established the IC as a governance body to oversee investment related activities.

The roles and responsibilities of IC are set out in its Terms of Reference which are available on the Group's corporate website (www.etiqa.com.my).

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

Members of the IC	Designation	Number of IC Meetings attended	%
Dato' Amirul Feisal Wan Zahir[1] (Chairman)	ED	4/4	100
Dato' Mohamed Rafique Merican[2]	ED	4/4	100
Mr. Philippe Pol Arthur Latour	NINED	4/4	100

[1] Director of MAHB

[2] Director of Family Takaful Berhad and Etiqa General Takaful Berhad, wholly-owned subsidiaries of MAHB.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(c) Board Committees Composition and Roles and Responsibilities (Contd.)

(v) Board Oversight Committee of Information Technology

The Board Oversight Committee of Information Technology ("BOC IT") consists of five (5) members and chaired by an INED.

BOC IT is a governance body which carries an oversight function for technology related activities to provide differentiation and competitive advantage to the Group, improve productivity of people and processes, address risks of technology obsolescence and ensure all IT initiatives are adequately funded and resourced.

BOC IT was revamped and renamed to Board Oversight Committee of Innovation & Technology effective from 1 January 2019 to focus on innovation in technology related activities.

The roles and responsibilities of BOC IT are set out in its Terms of Reference which are available on the Group's corporate website (www.etiqa.com.my).

The composition of BOC IT and the attendance of its members at meetings during the financial period are as follows:

Members of the BOC IT	Designation	Number of BOC IT Meetings attended	%
Mr. Loh Lee Soon (Chairman)	INED	7/7	100
Mr. Philippe Pol Arthur Latour	NINED	4/7	57
Encik Kamaludin Ahmad[1]	Member	7/7	100
Encik Mohd Suhail Amar Suresh[2]	Member	7/7	100
Mr. Hans Van Wuijckhuijse[3]	Member	7/7	100

[1] CEO of MAHB.

[2] Group Chief Technology Officer, Maybank

[3] Regional Director, Business Development Ageas Asia

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(c) Board Committees Composition and Roles and Responsibilities (Contd.)

(vi) Board Oversight Committee for Land Development

The Board Oversight Committee for Land Development ("BOC Land") consists of four (4) members and chaired by an INED.

BOC Land is a governance body which carries an oversight functions including approving, reviewing and monitoring property development activities.

The roles and responsibilities of BOC Land are set out in its Terms of Reference which are available on the Group's corporate website (www.etiqa.com.my).

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

Members of the BOC Land	Designation	Number of BOC Land Meetings attended	%
Dato' Johan Ariffin (Chairman)	INED	8/8	100
Mr. Loh Lee Soon	INED	8/8	100
Encik Kamaludin Ahmad[1]	Member	8/8	100
Encik Muhammad Fuad Hassan*[2]	Member	3/6	50

** resigned on 11 October 2018*

[1] CEO of MAHB.

[2] Head, Group Property, Maybank

(d) Directors' Training

The Board acknowledges the importance of continuos education for its Directors to ensure they are equipped with the necessary skills and knowledge to perform their functions and meet the challenges facing the Board.

During the financial period, all the Board members have attended various training programmes and workshops on issues relevant to the Group, including key training programmes for new Directors, namely the Induction Programme (in-house training) and Financial Institutions Directors' Education ("FIDE").

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(d) Directors' Training (Contd.)

(i) Induction Programme

A comprehensive induction programme has also been established and coordinated by the Company Secretary to ease new Directors into their new role and to assist them in their understanding of the Group's business strategy and operational matters. New Directors are required to attend the programme as soon as possible after they have been appointed. The programme includes intensive one-on-one session with the Senior Management Committee members/Head of Departments, wherein new Directors would be briefed and brought up to speed on the challenges and issues faced by the Group.

(ii) Training Attended by Directors

The Board continues to assess the training needs of its Directors and identify key areas of focus for training programmes vide the Annual Board Assessment conducted at the beginning of each financial period.

Training attended by the Directors during the financial period were as follows:

Training attended by Directors	DK[1]	PL[2]	NAM[3]	FVK[4]	DJA[5]	LLS[6]	WPC[7]	DMN[8]
A. In-house Training								
1. Induction Programme.								√
2. Etiqa Compliance Conference 2018.	√		√		√	√	√	
3. Etiqa Board Risk Workshop.	√		√		√	√	√	√
4. Etiqa Offsite presentation: (a) How Technology is Changing the Business Paradigm by Willis Towers Watson; (b) Using Technology to deliver what the customer wants; (c) Making Etiqa a high performance organization; and (d) Merger & Acquisition for Etiqa.	√	√		√	√	√	√	√
5. AMLATFPUAA (Anti Money Laundering).						√		
6. Blockchain in Financial Services						√		
7. Alternative Lending – P2P and Islamic Financing.						√		
8. Maybank Compliance Training Program for Board Members and Senior Management.	√	√	√		√	√	√	√
9. Maybank - BNM CRR Communication to Senior Management			√					
10. Maybank - Board Risk Workshop 2018.			√		√			
11. Ageas Partnership Days 2018.	√	√		√	√	√	√	√
12. Ageas Investor Day 2018.		√						
13. Ageas Finance and Risk Offsite.		√						
14. Ageas Management Forum 2018.		√						
B. External Training								
1. 2018 FIDE Elective Programme -Understanding Fintech and its Implications to Insurance Companies.	√							
2. FIDE Forum -1st PIDM (a) Is the financial system any safer, simpler or fairer than before dialogue? (b) Greek lesson to banking world.	√							
3. FIDE Forum: Identifying Your Next Board Talent - Optimising Board Composition and Board Director Recruitment.					√			
4. FIDE Module A.			√				√	
5. FIDE Module B.		√	√				√	

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(d) Directors' Training (Contd.)

(ii) Training Attended (Contd.)

Training attended by Directors	DK[1]	PL[2]	NAM[3]	FVK[4]	DJA[5]	LLS[6]	WPC[7]	DMN[8]
6. PIDM Dialogue with the Board Members of Life Insurance Companies – Briefing on Differential Levy System Framework to the Board of Directors.					√	√		
7. FT China Insurance Summit.		√						
8. "Takaful Minds & Its Algorithm in the Takaful Industry" - Session with Datuk Dr Mohd Daud Bakar.					√			
9. Takaful Executive Development Program: Value Based Intermediation in Takaful.					√			
10. Bursa CG Breakfast Session: MCCG Reporting and CG Guide.	√							
11. Islamic Stockbroking by Bursa Malaysia.								√
12. INSEAD Artificial Intelligence & Technology Development Leadership Programme.	√							
13. INSEAD - MAYBANK Killer Ideas Workshop and Developer Bootcamp for EXCO & Senior Management.			√					
15. Singularity Digital Safari.		√						
14. Board Receptive on Cyber Resilience.	√							
15. SAS ERM-ESSEC CREAR Cyber Risk Conference.							√	
16. ICDM PowerTalk By Professor CK Low – Would A Business Judgement Rule Help Directors Sleep Better At Night?					√			
17. ALM, Investment and Capital Management Conference.		√						
18. Utilisation of ERM for Commercial Sustainability, Agility and Resilience.					√			
19. Internal Capital Adequacy Assessment Process Workshop by PwC.								√
20. MIA AccTech Conference 2018.						√		
21. Investing in Integrated Strata Development Briefing: Understanding Owner's Rights and Obligations under the Strata Titles Act 1985 and Strata Management Act 2013.					√			
22. 2018 Invest Malaysia Kuala Lumpur.	√							
23. Malaysia: A New Dawn 2018 Conference.	√				√	√		
24. The Global Institute for Leadership Development 2018.						√		
25. Blue Ocean Leadership.						√		
26. 29th Annual Palm and Lauric Oils Conference.	√							
27. Harvard Advance Management Program for Leaders at Harvard Business School.			√					

1 DK - Datuk R. Karunakaran; 2 PL - Mr. Philippe Pol Arthur Latour; 3 NAM - Puan Nora Abd. Manaf; 4 FVK - Mr. Frank J.G. Van Kempen; 5 DJA - Dato' Johan Ariffin; 6 LLS - Mr. Loh Lee Soon; 7 WPC - Mr. Wong Pakshong Kat Jeong Colin Stewart; 8 DMN - Datuk Mohd Najib Abdullah

(3) INTERNAL CONTROL FRAMEWORK

The Board exercises overall responsibility on the Company's internal controls and its effectiveness. The Board recognises that risks cannot be eliminated completely; as such, the systems and processes put in place are aimed at minimising and managing risk. The Company has established internal controls which cover all levels of personnel and business processes to ensure the Company's operations run in an effective and efficient manner as well as to safeguard the assets of the Company and stakeholders' interests. Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures that corrective action, where necessary, is taken in a timely manner. As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(4) REMUNERATION - QUALITATIVE DISCLOSURES

(a) Board Performance

The Company leveraged on NRC at MAHB established on 1 September 2018. Prior to this, the Company leveraged on the Group NRC at Maybank.

In line with good corporate governance, the Board via the NRC has set out its intention to periodically review the Non-Executive Directors' ("NED") remuneration per Maybank remuneration policy for Directors.

The Board believes that one area that the Board needs to focus on in order to remain effective in the discharge of its duties and responsibilities is the setting of a fair and comprehensive remuneration package commensurate with the expertise, skills and responsibilities with being a director of a financial institution.

The remuneration package of NEDs consists of the following:

Fees and meeting allowances – Directors' fees and meetings allowances for NEDs are based on a fixed sum as determined by the NRC and the Board, and subsequently approved by the shareholders.

(b) Senior Officers Appointment and Performance

NRC also recommends and assesses the nominee for the position of CEO and re-appointment of CEO as well as oversee the appointment and succession planning of the identified Senior Officers (Chief Financial Officer, Chief Risk Officer and Appointed Actuary) of the Company.

NRC is responsible to oversee performance evaluation of CEO and Senior Officers.

NRC is also responsible to ensure all Key Responsible Persons ("KRPs") fulfil the fit and proper requirements, in line with the Fit and Proper Policy for KRPs.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(5) REMUNERATION - QUANTITATIVE DISCLOSURES

(a) Non-Executive Directors' Remuneration

The Non-Executive Directors' Remuneration for the financial period are as follows:

Remuneration	Per Annum (RM)
(i) **Fees**	
· Board	
- Chairman	180,000
- Member	120,000
· Committee	
- Chairman	32,500
- Member	28,000
(ii) **Meeting allowance**	
· per meeting attended	2,000

(b) Disclosure of Directors' Remuneration

The details of Directors' Remuneration for FPE 2018 are disclosed in Note 26 to the Company's financial statements.

(c) Remuneration Policy in respect of Officers of the Company

The Company adopted Maybank Group's total rewards philosophy goes beyond tangible rewards. It embraces an integrated rewards strategy that focuses on the right remuneration, benefits and career development as well as progression opportunities at the right time for the employees' personal and professional aspirations. It involves a holistic integration of total rewards' key elements that are aligned to the Group strategy, Group Human Capital strategy, culture and Core Values T.I.G.E.R.*, all critical to sustain employee engagement levels, productivity and business growth.

** Core Values: Teamwork; Integrity; Growth; Excellence & Efficiency and Relationship Building*

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)

(c) Remuneration Policy in respect of Officers of the Company (Contd.)

Remuneration policy is approved by the Board and is monitored and reviewed periodically. It reinforces a high performance culture to attract, motivate and retain talent through market competitiveness and differentiated pay.

Maybank Group rewards' principles are delivered holistically via the Group's Total Rewards Framework which includes base pay, other fixed cash, performance-based variable cash, long-term incentive awards, benefits and development.

Key elements	Purpose
Fixed Pay	Attract and retain talent by providing competitive pay that is externally benchmarked against relevant peers and location, and internally aligned with consideration of differences in individual performance and achievements, skills-set, job scope as well as competency level.
Variable Pay	<u>Variable Bonus</u> - Reinforce pay-for-performance culture and adherence to Maybank Group's Core Values T.I.G.E.R. - Variable cash award design that is aligned with the long-term performance goals of the Group through our deferral and claw-back policies. - Based on overall Group Performance, Business/Corporate Function and individual performance. - Performance is measured via the Balanced Scorecard approach. - Deferral Policy: Any Variable Bonus Awards in excess of certain thresholds will be deferred over a period of time.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)

(c) Remuneration Policy in respect of Officers of the Company (Contd.)

Key elements	Purpose
Variable Pay (Contd.)	Long-term Incentive Award The Long-term Incentive Award is offered within the suite of Total Rewards for eligible Talents. An approved customised Share Grant Plan is offered to eligible Senior Management who has direct line of sight in driving, leading and executing the Maybank Group's business strategies and objectives. Clawback Provision The Maybank Board, based on risk management issues, financial misstatement, fraud and gross negligence or wilful misconduct, has the discretion to make potential adjustment or clawback on Variable Bonus and Long-term Incentive Awards.
Benefits	Provides employees with financial protection, access to health care, paid time-off, staff loans at preferential rates, programmes to support work/life balance, etc. for our diverse workforce. The benefits programmes which blend all elements including cost optimisation and employee/job needs, are reviewed regularly with proactive actions taken to remain competitive in the increasingly dynamic business landscape and continuously enrich our employees, as part of our total rewards strategy.
Development and Career Opportunities	Continue to invest in the personal and professional growth of our employees. Opportunities provided to employees to chart their careers across different businesses and geographies.

Total Compensation ensures that employees are paid equitably to the market, delivered via cash and share/share-linked instruments, where applicable. The mix of cash and shares/shares-linked instruments is aligned to the Group's long-term value creation and time horizon of risks with targeted mix ratio.

The target positioning of Base Pay is mid-market while target positioning for Total Compensation for a performer is to be within the Upper Range of market. Target positioning for benefits is mid-market. In certain markets/geographies, there may be exceptions for selected benefits with above mid-market positioning for strategic purposes. As the Group operates globally, it is essential that local legislation and practices are observed. Should any clause of any policy conflict with local legislation, local legislations shall take precedence.

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)

(c) Remuneration Policy in respect of Officers of the Company (Contd.)

Key features of Remuneration Framework that Promotes Alignment between Risk and Rewards

The Group Total Compensation comprising a mixture of Fixed and Variable elements (i.e. Variable Bonus and Long-term Incentive Plan) is designed to align with the long-term performance goals and objectives of the organisation. The compensation framework provides a balanced approach between fixed and variable components that change according to individual performance, business/corporate function performance, group performance outcome as well as individual's level and accountability.

The Company has strong internal governance on performance and remuneration of control functions which are measured and assessed independently from the business units they support to avoid any conflict of interests. The remuneration of staff in control functions are predominantly fixed to reflect the nature of their responsibilities. Annual reviews of their compensation are benchmarked against market rate and internally to ensure that it is set at an appropriate level.

Performance Management principles ensure Key Performance Indicators ("KPI") continue to focus on outcomes delivered that are aligned to the business plans. Each of the Senior Officers and Other Material Risk Takers ("OMRT") carry Risk, Governance & Compliance goals in their individual scorecard and are cascaded accordingly. Being a responsible organisation, the right KPI setting continues to shape the organisational culture, actively drive risk and compliance agendas effectively where inputs from control functions and Board Committees are incorporated into the Sector and individual performance results.

Long-term Incentive Award – Employees' Share Grant Plan

Maybank in December 2018, rolled out a new scheme under the Long-Term Incentive Award i.e. Employees Shares Grant Scheme ("ESGP") replacing the previous scheme that expired in June 2018. ESGP serves as a long-term incentive award for eligible Senior Management with the following objectives:

- To align to the Group's long-term strategic objectives to maximise shareholders' value through a high performance culture;
- To continue to attract, motivate and retain key talents in Senior Management level;
- To align the Group total rewards to the long-term value creation and time horizon of risk;
- To drive performance that is tied to long-term outcomes and business growth; and
- To participate in the Group's business strategies for future growth of the Group.

STATEMENT OF CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)

(c) Remuneration Policy in respect of Officers of the Company (Contd.)

Corporate Governance – Remuneration practices

As part of the overall corporate governance framework, the Company ensures its remuneration policies and structure are in line with the requirements of governance regulations. From a risk management perspective, the remuneration policy is supported by strong governance and sensitive to risk outcomes.

Staff rewards are reviewed on an annual basis and consistent with business performance and prudent risk management. Appropriately, involvement by the relevant control functions are sufficiently embedded to provide an independent and objective assessment of the remuneration principles and practices which are pre-requisites for executing a sound remuneration policy.

(d) Senior Officers and Other Material Risk Takers ("OMRT")

The remuneration package for Senior Officers and OMRTs are reviewed on an annual basis and submitted to the NRC for recommendation to the Board for approval.

Senior officer is defined as performing a senior management function whose primary or significant responsibility is for the management and performance of significant business activities and includes those who assume primary or significant responsibility for key control functions.

OMRT is defined as:

(a) an officer who is a member of senior management of the Company and who can materially commit or control significant amounts of the the Company's resources or whose actions are likely to have a significant impact on its risk profile; or

(b) among the most highly remunerated officers in the Company.

Summary of FPE 2018 compensation outcome for those identified as Senior Officers and OMRT:

Remuneration	Unrestricted		Deferred	
Fixed Remuneration	No. of Pax	RM'000	No. of Pax	Units
Material Risk Taker "Senior Officers"				
Cash-based	2	1,588	NIL	NIL
Shares and share-linked instrument (ESOS etc)	2	422	NIL	NIL
Other Material Risk Taker "OMRT"				
Cash-based	3	1,694	NIL	NIL
Shares and share-linked instrument (ESOS etc)	3	66	NIL	NIL

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ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Datuk Mohd Najib Abdullah and Loh Lee Soon, being two of the directors of Etiqa Life Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 32 to 149 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of the results and the cash flows of the Company for the financial period from 19 July 2017 (date of incorporation) to 31 December 2018.

Signed on behalf of the Board in accordance with a resolution of the directors dated 14 February 2019.

DATUK MOHD NAJIB ABDULLAH

LOH LEE SOON

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

I, Low Hong Ceong, being the officer primarily responsible for the financial management of Etiqa Life Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 32 to 149 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed LOW HONG CEONG
at Kuala Lumpur in Wilayah Persekutuan
on 14 February 2019

LOW HONG CEONG

Before me,

PESURUHJAYA SUMPAH
W 632
SAMUGAM VASSOO
AMN
Tempoh Lantikan
1 Jul 2018 - 31 Dis 2020
MALAYSIA

Commissioner for Oaths

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

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

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Etiqa Life Insurance Berhad ("the Company"), which comprise the statement of financial position as at 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the financial period ended 31 December 2018, and summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 149.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and its cash flows for the period ended 31 December 2018 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

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

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

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

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 226 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Yeo Beng Yean
No. 03013/10/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
14 February 2019

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 RM'000
Assets		
Property, plant and equipment	3	29,992
Investment properties	4	912,840
Prepaid land lease payments	5	841
Intangible assets	6	37,681
Investments	7	9,993,168
Financing receivables	9	215,173
Reinsurance assets	10	49,111
Insurance receivables	11	23,842
Other receivables	12	242,353
Derivative assets	13	737
Cash and bank balances		97,416
Total Assets		11,603,154
Equity and Liabilities:		
Share capital	14	100,000
Reserves	15	2,086,266
Total Equity		2,186,266
Liabilities		
Insurance contract liabilities	16	8,413,206
Derivative liabilities	13	14,168
Deferred tax liabilities, net	17	328,684
Insurance payables	18	14,543
Other payables	19	390,549
Current tax liabilities		255,738
Total Liabilities		9,416,888
Total Equity and Liabilities		11,603,154

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

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE PERIOD FROM 19 JULY 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	Note	19.7.2017 to 31.12.2018 RM'000
Operating revenue	20	1,996,142
Gross earned premiums		1,530,298
Premiums ceded to reinsurers		(25,469)
Net earned premiums		1,504,829
Investment income	21	465,844
Realised losses	22	(190,800)
Fair value losses	23	(90,294)
Other operating expenses, net	24	(8,864)
Other revenue		175,886
Gross benefits and claims paid		(1,035,118)
Claims ceded to reinsurers		13,583
Gross change in contract liabilities		(192,642)
Change in contract liabilities ceded to reinsurers		16,148
Net benefits and claims		(1,198,029)
Management expenses	25	(150,231)
Fee and commission expenses	27	(104,199)
Taxation borne by policyholders	28	(8,007)
Other expenses		(262,437)
Profit before taxation		220,249
Taxation	28	14,738
Net profit for the period		234,987
Earnings per share (sen)		
Basic	29	234.99

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

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 19 JULY 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	Note	19.7.2017 to 31.12.2018 RM'000
Net profit for the period		234,987
Other comprehensive income/(loss):		
Items that may be subsequently reclassified to income statement		
Change in value of FVOCI financial assets, net		
- Fair value changes		3,334
- Transfer to profit or loss upon disposal	22	(478)
Tax effect relating to FVOCI financial assets	28	(87)
		2,769
Items that may not be reclassified to income statement		
Revaluation reserves		
- Revaluation of property, plant and equipment upon transfer from investment property	3	44,777
- Revaluation of prepaid land lease payment	5	53,441
- Adjustment for reserves backing the Participating Fund	16	(26,555)
Tax effect relating to revaluation reserves	28	(17,198)
		54,465
Other comprehensive income from operations for the period, net of tax		57,234
Total comprehensive income for the period		292,221

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

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 19 JULY 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	<------- Non-distributable			Retained Earnings ------->			
	Share Capital RM'000	Available-for Sale/FVOCI Reserves RM'000	Revaluation Reserves RM'000	Non-Par Fund Surplus RM'000	Distributable Retained Profits RM'000	Sub-total Retained Earnings RM'000	Total Equity RM'000
At 19 July 2017 (date of incorporation)	-	-	-	-	-	-	-
Transferred from Etiqa General Insurance Berhad ("EGIB") (Note 43)	-	(2,481)	-	1,768,679	-	1,768,679	1,766,198
Effect of adopting MFRS 9 (Note 2.4(b))	-	2,104	-	25,743	-	25,743	27,847
	-	(377)	-	1,794,422	-	1,794,422	1,794,045
Net profit for the period	-	-	-	156,903	78,084	234,987	234,987
Other comprehensive income for the period	-	2,769	54,465	-	-	-	57,234
Total comprehensive income for the period	-	2,769	54,465	156,903	78,084	234,987	292,221
Issue during the period*	100,000	-	-	-	-	-	100,000
Transfer from non-Par fund surplus upon recommendation by Appointed Actuary[1]	-	-	-	(1,003,813)	1,003,813	-	-
At 31 December 2018	100,000	2,392	54,465	947,512	1,081,897	2,029,409	2,186,266

* The Company was incorporated on 19 July 2017 with a share capital of RM1 comprising 1 ordinary share. On 26 December 2017, the Company increased its share capital to RM100,000,000 with the issuance of 99,999,999 ordinary shares.

[1] In accordance with the Financial Services Act 2013, the unallocated surplus of the Non-Participating ("non-Par") fund is only available for distribution to the shareholder upon approval by the Appointed Actuary. The approved transfer from the non-Par fund unallocated surplus for the financial period ended 31 December 2018 was RM1,320,807,128 (RM1,003,813,417, net of tax at 24%).

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

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 19 JULY 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	19.7.2017 to 31.12.2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation:	220,249
Adjustments for:	
Taxation borne by policyholders	8,007
Depreciation of property, plant and equipment	5,500
Amortisation of intangible assets	4,754
Fair value losses on financial assets at FVTPL	110,074
Fair value gains on investment properties	(19,780)
Amortisation of prepaid land lease payments	24
Amortisation of premium on investments	8,551
Net loss on foreign exchange	9,387
Reversal of impairment losses on insurance receivables	(20)
Bad debts recoveries	(105)
Bad debts written off	7
Impairment losses on other receivables	191
Reversal of impairment losses on financing receivables	(372)
Net loss on disposal of investments	190,800
Interest income	(417,277)
Net impairment losses on investments	83
Gross dividend income	(37,447)
Rental income	(39,429)
Profit from operations before changes in operating assets and liabilities	43,197
Changes in working capital:	
Increase in reinsurance assets	(16,148)
Increase in insurance receivables	(3,148)
Decrease in other receivables	29,291
Increase in financing receivables	(6,004)
Carried forward	47,188

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS (CONTD.)
FOR THE PERIOD FROM 19 JULY 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

	19.7.2017 to 31.12.2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)	
Brought forward	47,188
Increase in amounts due from related parties	(4,622)
Increase in other payables	14,542
Increase in insurance contract liabilities	192,642
Decrease in insurance payables	(738)
Increase in financial assets at amortised costs	(169,379)
Interest income received	390,759
Dividend income received	37,257
Rental income received	35,967
Cash generated from operations	543,616
Tax paid	(18,846)
Net cash generated from operations	524,770
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from disposal of investments	6,505,676
Purchase of investments	(7,042,287)
Proceeds from sale of intangible assets	35
Additions to IPUC	(110,052)
Purchase of property, plant and equipment	(10,107)
Purchase of intangible assets	(12,818)
Net cash used in investing activities	(669,553)
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of share capital	100,000
Net cash generated from financing activity	100,000
Net decrease in cash and cash equivalents	(44,783)
Cash and cash equivalents at date of incorporation	- *
Transferred from EGIB	142,199
Cash and cash equivalents at end of period	97,416
Cash and cash equivalents comprise:	
Cash and bank balances:	
Shareholder's funds	365
Life insurance fund	97,051
	97,416

* Representing RM1

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

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated on 19 July 2017 and domiciled in Malaysia. The registered office of the Company is located at Level 19, Tower C, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur, Malaysia.

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

On 1 January 2018, the MAHB Group has successfully completed the Conversion of Composite Licences to Single Licences ("Licence Split") and surrendered the composite licences in exchange for the four single licences. Consequently, the life insurance business of Etiqa General Insurance Berhad (formerly known as Etiqa Insurance Berhad) was transferred to the Company.

On 1 January 2018, the Company was then granted the licence to underwrite life insurance and investment linked business.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 14 February 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

There will be no comparative information and disclosure as the Company is a newly incorporated entity. Pursuant to the Companies Act 2016, the first set of financial statement for the newly incorporated entity shall be prepared within 18 months from the date of its incorporation which is this current financial period ended 31 December 2018.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.1 Basis of Preparation (Contd.)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than those disclosed in Note 2.2(xiii) which present a description of the measurement and recognition of the liabilities including a general explanation on the estimation methods used. Details on the sensitivity of the carrying amounts of the life insurance liabilities to the methods, assumptions and estimates underlying their calculation are disclosed in Note 36.

2.2 Summary of Significant Accounting Policies

(i) Property, Plant and Equipment and Depreciation

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(i) Property, Plant and Equipment and Depreciation (Contd.)

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(ii) Investment Properties

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(ii) Investment Properties (Contd.)

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

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

(iii) Leases

(a) Classification

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(iii) Leases (Contd.)

(b) Finance Leases - The Company as Lessee

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

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

(c) Operating Leases - The Company as Lessor

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

(d) Operating Leases - The Company as Lessee

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(iv) Intangible Assets

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

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

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

(a) Software Development Costs

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

(b) Computer Software

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(v) Financial Assets

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

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

(a) Classification of financial assets

Upon the implementation of MFRS 9 *Financial Instruments* on 1 January 2018, the Company determines the classification of financial assets at initial recognition depending on the business model used for managing the financial assets as in Note 2.2(v)(b) and the contractual cash flows characteristics of the financial assets as in Note 2.2(v)(c). The categories include financial assets at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and amortised cost ("AC").

(i) Financial Assets at FVTPL

Financial assets in this category are those financial assets that are held for trading or financial assets that qualify for neither held at AC nor at FVOCI. This category includes debt intruments whose cash flow characteristic fail the Solely Payments of Principal and Interest ("SPPI") criterion or are not held within a business model whose objective is either to collect contractual cash flows, or both collect contractual cash flows and sell. Equity instruments that were not elected for FVOCI will be measured at FVTPL.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(v) Financial Assets (Contd.)

(a) Classification of financial assets (Contd.)

(ii) Financial Assets at FVOCI

Financial assets in this category are those financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual cash flows represent solely payments of principal and interest.

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, to measure changes through FVOCI i.e. without recycling profit or loss upon derecognition.

Subsequent to initial recognition, financial assets at FVOCI are measured at fair value. Exchange differences, interest/profit and dividend income on financial assets at FVOCI are recognised separately in profit or loss as part of other expenses or other income and investment income respectively. Other net gain and losses are recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. On derecognition, gain or losses accumulated in other comprehensive income are reclassified to profit or loss.

(iii) Financial Assets at AC

Financial assets in this category are those financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest.

Subsequent to initial recognition, financial assets at AC are measured at amortised cost using the effective interest method. Exchange differences, interest/profit and dividend income on financial assets at AC are recognised separately in profit or loss as part of other expenses or other income and investment income respectively. On derecognition, any gain or loss is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(v) Financial Assets (Contd.)

(b) Business model assessment

The Company assesses its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Company considers the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The Company's business model are not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors and is determined by the key management personnel on the basis of both:

- The way the assets are managed and their performance is reported to them; and

- The contractual cash flow characteristics of the financial asset.

The expected frequency, value and timing of asset sales are also important aspects of the Company's assessment. The Company should assess its business models at each reporting period in order to determine whether the models have changed since the preceding period.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(v) Financial Assets (Contd.)

(b) Business model assessment (Contd.)

Change in business model is not expected to be frequent; but should such event take place, it must be:

i) Determined by the Company's senior management as a result of external or internal changes;
ii) Significant to the Company's operations; and
iii) Demonstrable to external parties.

A change in the Company's business model will occur only when the Company begins or ceases to perform an activity that is significant to its operations. Change in the objective of the business model must be effected before the reclassification date.

(c) The SPPI test

As a second step of its classification process, the Company assesses the contractual terms to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. In assessing the SPPI, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(d) Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or the Company has transferred substantially all the risks and rewards of the financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(v) Financial Assets (Contd.)

(d) Derecognition (Contd.)

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

(vi) Fair Value of Financial Assets

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vi) Fair Value of Financial Assets (Contd.)

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

(vii) Impairment

(a) Impairment of financial assets

The Company assesses the impairment of financial assets based on an Expected Credit Loss ("ECL") model. The ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include loans, advances, financing, insurance receivables, debts instruments and deposits held by the Company. The ECL model also applies to contract assets under MFRS 15 *Revenue from Contracts with Customers* and lease receivables under MFRS 117 *Leases*.

ECL would be recognised from the point at which the financial assets are originated or purchased. A 12-month ECL must be recognised initially for all assets subject to impairment.

The measurement of expected loss will involve increased complexity and judgement that include:

(i) Determining a significant increase in credit risk since initial recognition

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECLs and one that is based on lifetime ECLs. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The Company will generally be required to apply a three-stage approach based on the change in credit quality since initial recognition:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vii) Impairment (Contd.)

(a) Impairment of financial assets (Contd.)

(i) Determining a significant increase in credit risk since initial recognition (Contd.)

3 Stage approach	Stage 1 Performing	Stage 2 Under-performing	Stage 3 Non-performing
ECL Approach	12-month ECL	Lifetime ECL	Lifetime ECL
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit-impaired assets
Recognition of interest/profit income	Gross carrying amount	Gross carrying amount	Net carrying amount

(ii) Forward-looking information and ECL measurement

The amount of credit loss recognised is based on forward-looking estimates that reflect current and forecast economic conditions. The forward-looking adjustment is interpreted as an adjustment for the expected future economic conditions, as indicated by different macroeconomic factors and/or expert experienced in credit judgement. A forward-looking ECL calculation should be based on an accurate estimation of current and future probability of default ("PD"), exposure at default ("EAD"), loss given default ("LGD") and discount factors.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vii) Impairment (Contd.)

(a) Impairment of financial assets (Contd.)

Loan, advance and financing

The ECL on the loan portfolio (other than policy/Automated Policy Loan) of the Company is computed using a risk sensitive model, leveraging the ECL coverage ratio calculated for comparable portfolios in MBB for Stage 1 and Stage 2 and the individual asessment is applied for Stage 3. The policy/APL loans are not expected to incur loss as any shortfall will be deducted from the cash surrender value. This implies that LGD is zero and no ECL is estimated.

Insurance receivables

The impairment on insurance receivables is measured at initial recognition and throughout its life at an amount equal to lifetime ECL. The ECL is calculated using a provision matrix based on historical data where the insurance and reinsurance receivables are grouped based on different sales channel and different reinsurance premium type's arrangement respectively. The impairment is to be calculated on the total outstanding balance including all aging buckets from current to 12-month and above. Roll rates is to be applied on the outstanding balance of the aging bucket which forms the base of the roll rate. A forward-looking factor is to be included in the calculation of ECL.

Financial assets at FVOCI and AC

In accordance to the three-stage approach, all newly purchased financial assets shall be classified in Stage 1, except for credit impaired financial assets. It will move from Stage 1 to Stage 2 when there is significant increase in credit risk ("SICR"), and Stage 2 to Stage 3 when there is an objective evidence of impairment. Financial assets which have experienced SICR since initial recognition are classified as Stage 2, and are assigned a lifetime ECL.

Financial assets which have not experienced any SICR since initial recognition are classified as Stage 1, and assigned a 12-month ECL. All financial assets are assessed individually for objective evidence of impairment except for:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(vii) Impairment (Contd.)

- Financial assets measured at FVTPL;
- Equity instruments;
- Local federal government and local central bank-issued bonds, Treasury Bills and Notes are considered low credit risk on the basis that both federal government and central bank have strong capacity in repaying the instruments upon maturity. In addition, there is no past historical lost experiences arising from these government securities in all jurisdictions in which the Company operates.

(b) Non-financial Assets

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(viii) Reinsurance Assets

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

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

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

At each reporting date, or more frequently, the Company assess whether objective evidence exists that reinsurance assets are impaired. The impairment loss is recognised in profit or loss.

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

(ix) Insurance Receivables

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(ix) Insurance Receivables (Contd.)

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

(x) Cash and Cash Equivalents

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

(xi) Equity Instruments

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

(xii) Product Classification

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xii) Product Classification (Contd.)

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

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

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

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

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

(c) Contractually based on the:

- Performance of a specified pool of contracts or a specified type of contract; or
- Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
- The profit or loss of the entity or fund that issues the contract.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xii) Product Classification (Contd.)

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise their discretion as to the quantum and timing of their payment to contract holders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, are held within insurance contract liabilities as at the end of the reporting date.

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

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

(xiii) Life Insurance Contract Liabilities

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xiii) Life Insurance Contract Liabilities (Contd.)

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xiv) Financial Liabilities

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

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

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

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

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

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

(xv) Liability Adequacy Test

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xvi) Insurance Payables

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

(xvii) Offsetting of Financial Assets and Financial Liabilities

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

(xviii) Premium Income

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xix) Benefits and Claims Expenses

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

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

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

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

(xx) Commission Expenses and Acquisition Costs

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

(xxi) Other Revenue Recognition

Revenue is recognised when the Company satisfies a performance obligation by transferring a promised good or service to a customer. Generally, satisfaction of a performance obligation occurs when/as the Company's control of the goods or services is transferred to the customer. Control can be defined as the ability to direct the use of an asset and to obtain substantially all of the remaining benefits from the asset. Control also includes the ability to prevent another entity from directing the use of and obtaining the benefits from an asset.

For each separate performance obligation, the Company will need to determine whether the performance obligation is satisfied by transferring the control of goods or services over time. If the performance obligation is not satisfied over time, then it is satisfied at a point of time.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxi) Other Revenue Recognition (Contd.)

When/as a performance obligation is satisfied, the Company shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained, that is allocated to that performance obligation).

(a) Interest Income

Interest income is recognised at a point of time using the effective interest method over the term of the underlying instruments.

(b) Dividend Income

Dividend income is recognised at a point of time when the Company's right to receive payment is established.

(c) Rental Income

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

(d) Management Fees

Management fee is recognised at a point of time on an accrual basis for provision of bureau services and in accordance with the terms and conditions of the relevant agreements, when services are rendered.

(xxii) Fee and Commission Income

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxiii) Employee Benefits

(a) Short-term Benefits

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

(b) Defined Contribution Plans

As required by law, the Company makes contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss when incurred.

(c) Share-based Compensation

Employees' share option scheme ("ESOS")

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxiii) Employee Benefits (Contd.)

(c) Share-based Compensation (Contd.)

Restricted share units ("RSU")

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

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

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

Employees' Share Grant Plan ("ESGP Shares")

The ESGP Shares are awarded to eligible Executive Directors and employees of participating companies within the MBB Group (excluding dormant subsidiaries). The ESGP Shares may be settled by way of issuance and transfer of new Maybank shares or by cash at the absolute discretion of the ESGP Committee.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxiii) Employee Benefits (Contd.)

(c) Share-based Compensation (Contd.)

Employees' Share Grant Plan ("ESGP Shares") (Contd.)

The total fair value of ESGP Shares granted to eligible employees is recognised as an employee cost with a corresponding increase in the reserve within equity over the vesting period and taking into account the probability that the ESGP Shares will vest. The fair value of ESGP Shares is measured at grant date, taking into account, the market and non-market vesting conditions upon which the ESGP Shares were granted. Upon vesting of ESGP Shares, MBB will recognise the impact of the actual numbers of ESGP Shares vested as compared to original estimates.

Cash-settled Performance-based Employees' Share Grant Plan ("CESGP")

The CESGP is awarded to eligible Executive Directors and employees of participating companies within the MBB Group, subject to achievement of performance criteria set out by the Board of Directors and prevailing market practices in the respective countries. Upon vesting, the cash amount equivalent to the value of the MBB Reference Shares will be transferred to the eligible employees.

(xxiv) Foreign Currencies

(a) Functional and Presentation Currency

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxiv) Foreign Currencies (Contd.)

(b) Foreign Currency Transactions

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

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

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

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

(xxv) Income Tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(xxv) Income Tax (Contd.)

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

Description	Effective for annual periods beginning on or after
MFRS 16 *Leases*	1 January 2019
IC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Annual Improvements to MFRSs 2015-2017 Cycle:	
(i) Amendments to MFRS 3 *Business Combinations* and MFRS 11 *Joint Arrangements*	1 January 2019
(ii) Amendments to MFRS 112 *Income Tax*	1 January 2019
(iii) Amendments to MFRS 123 *Borrowing Costs*	1 January 2019
MFRS 17 *Insurance Contracts*	1 January 2021
MFRS 10 *Consolidated Financial Statements* and MFRS 128 *Investment in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to MFRS 10 and MFRS 128)	To be announced by MASB

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

MFRS 16 *Leases*

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

(i) Lessee

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

MFRS 16 *Leases* (Contd.)

(ii) Lessor

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Company is in the process of assessing the financial implication for adopting the new standard and plan to adopt the new standard on the required effective date.

The Company has chosen to apply the standard using the modified restropective approach and has established a project team to study the implication. The final impacts are still being assessed and will be adjusted as necessary.

MFRS 17 *Insurance Contracts*

MFRS 17 will replace MFRS 4 *Insurance Contracts* that was issued in 2005. MFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin ("CSM") that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period);

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

MFRS 17 *Insurance Contracts* (Contd.)

- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;

- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;

- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;

- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the profit or loss, but are recognised directly on the statement of financial position;

- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and

- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The standard is effective for annual periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies MFRS 9 and MFRS 15 on or before the date it first applies MFRS 17. An entity shall apply MFRS 17 based on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application for estimating the CSM, as defined by MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

(i) <u>Modified retrospective approach</u>

Based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

MFRS 17 *Insurance Contracts* (Contd.)

(ii) Fair value approach

The CSM is determined as the positive difference between the fair value determined in accordance with MFRS 13 *Fair Value Measurement* and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date).

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

The Company has established a project team, with assistance from the Actuarial, Finance, Risk, IT and various departments to study the implication and to evaluate the potential impact of adopting this standard on the required effective date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Adoption of accounting policies - MFRS 9 *Financial Instruments*

The adoption of this standard resulted in changes in adjustments to the financial assets and financial liabilities which were transferred from EGIB (formerly known as Etiqa Insurance Berhad ("EIB")). The accounting policies that relate to the classification, measurement and impairment of transferred financial assets and financial liabilities were also amended to comply with this standard.

(a) Classification of financial assets and financial liabilities on the date of adoption

The following table shows the original measurement categories in accordance with MFRS 139 *Financial Instruments: Recognition and Measurement* and the new measurement categories under MFRS 9 for the financial assets and financial liabilities transferred to the company as at 1 January 2018:

	Note	Original classification under MFRS 139	New classification under MFRS 9	Original carrying amount under MFRS 139 RM'000	New carrying amount under MFRS 9 RM'000
Financial Assets					
Malaysian government papers	A	HFT/FVTPL	FVOCI	7,511	7,511
Malaysian government papers		HFT/FVTPL	FVTPL	320,823	320,823
Debt securities	A	HFT/FVTPL	FVOCI	127,886	127,886
Debt securities		HFT/FVTPL	FVTPL	6,059,181	6,059,181
Equity securities	B	AFS	FVTPL	876,576	919,255
Equity securities		HFT/FVTPL	FVTPL	912,914	912,914
Unit and property trust funds	C	AFS	FVTPL	58,077	58,077
Unit and property trust funds		HFT/FVTPL	FVTPL	53,031	53,031
Structured products		HFT/FVTPL	FVTPL	389,631	389,631
Negotiable certificates of deposits		HFT/FVTPL	FVTPL	145,463	145,463
Deposits with financial institutions	D	LAR	FVTPL	78,169	78,169
Deposits with financial institutions		LAR	AC	632,625	632,625
Financing receivables		LAR	AC	208,797	208,797
Other receivables		LAR	AC	236,432	236,432
Derivative assets		HFT/FVTPL	FVTPL	2,230	2,230
				10,109,346	10,152,025

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Adoption of accounting policies - MFRS 9 *Financial Instruments* (Contd.)

(a) Classification of financial assets and financial liabilities on the date of initial application (Contd.)

The following table shows the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 for the financial assets and financial liabilities transferred to the company as at 1 January 2018 (Contd.):

	Note	Original classification under MFRS 139	New classification under MFRS 9	Original carrying amount under MFRS 139 RM'000	New carrying amount under MFRS 9 RM'000
Financial Liabilities					
Derivative liabilities		HFT/FVTPL	FVTPL	25,791	25,791
Other payables		LAR	AC	366,455	366,455
				392,246	392,246

Notes:

A Malaysian Government Papers and debt securities for Annuity Non-Par are classified as financial assets at FVOCI. These instruments are managed within a business model by collecting contractual cash flows and selling the financial assets. The cash flow characteristic meets the requirement of SPPI test.

B Equity securities are mandatory to be measured at FVTPL under MFRS 9 because the cash flows characteristic fails the SPPI requirements. The Company has not elected to measure these instruments at FVOCI.

C In respect of financial assets such as unit and property trust funds previously designated at available-for-sale under MFRS 139, upon evaluation, these assets did not meet the criterion for recognition at amortised cost nor FVOCI and as such are mandatory to be measured at FVTPL under MFRS 9.

D All financial assets under investment-linked business are mandatory to be measured at FVTPL which is to provide the policyholders with the potential investment returns, in line with the investment mandate. As such, deposits with financial institutions which were previously classified as loans and receivables and approximate the fair value are now classified as financial assets at FVTPL under MFRS 9.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Adoption of accounting policies - MFRS 9 *Financial Instruments* (Contd.)

(b) Financial effects arising from adoption of MFRS 9 *Financial Instruments*

(i) The adoption of MFRS 9 has also resulted in the following financial effects to the related statement of financial position items of the Company:

	1.1.2018 (with assets transferred from EGIB) RM'000	Classification and measurement RM'000	Expected credit losses RM'000	1.1.2018 RM'000
Assets				
Investments	9,661,887	42,681	-	9,704,568
Insurance receivables	20,669	-	(93)	20,576
Other receivables	236,486	-	(139)	236,347
Liabilities				
Insurance contract liabilities	8,193,491	2,642	-	8,196,133
Deferred tax liabilities	578,656	11,960	-	590,616
Equities				
AFS Reserve	(2,481)	2,481	-	-
FVOCI Reserve	-	(450)	73	(377)
Retained earnings	1,768,679	26,048	(305)	1,794,422

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Adoption of accounting policies - MFRS 9 *Financial Instruments* (Contd.)

(b) Financial effects arising from adoption of MFRS 9 *Financial Instruments* (Contd.)

(ii) The following table analyses the impact, net of tax, of transition to MFRS 9 on the restated balance of AFS/FVOCI reserve, retained earnings and insurance contract liabilities of the Company:

	RM'000
AFS/FVOCI Reserve	
At 1 January 2018 (upon transfer of assets from EGIB)	(2,481)
Transfer to retained earnings	2,031
Recognition of ECL	73
At 1 January 2018 (restated)	(377)
Retained earnings (Non-Par Fund Surplus)	
At 1 January 2018 (upon transfer of assets from EGIB)	1,768,679
Transfer from AFS/FVOCI reserve	(2,031)
Unrealised gain on financial assets at FVTPL	39,808
Recognition of ECL	(305)
Deferred tax in respect of unrealised gain on FVTPL	(3,686)
Deferred tax of Non-Par unallocated surplus	(8,043)
At 1 January 2018 (restated)	1,794,422
Insurance contract liabilities	
At 1 January 2018 (upon transfer of assets from EGIB)	8,193,491
Transfer from AFS/FVOCI reserve	(4,621)
Transfer to par unallocated surplus	4,621
Unrealised gain on financial assets at FVTPL	2,873
Deferred tax in respect of unrealised gain on FVTPL	(231)
At 1 January 2018 (restated)	8,196,133

3. PROPERTY, PLANT AND EQUIPMENT

	Properties # RM'000	Furniture, fittings, equipment and renovations RM'000	Computers and peripherals RM'000	Electrical and security equipments RM'000	Work-in progress RM'000	Total RM'000
2018						
Cost						
At 19 July 2017 (date of incorporation)	-	-	-	-	-	-
Transferred from EGIB (Note 43)	58,390	33,327	7,112	38,127	6,467	143,423
Revaluation before reclassification	44,777	-	-	-	-	44,777
Reclassification to Investment Properties (Note 4)	(102,862)	-	-	-	-	(102,862)
Additions	-	1,443	7,355	646	663	10,107
Disposal	-	-	(4)	-	-	(4)
Reclassification	-	554	-	6,226	(6,780)	-
At 31 December 2018	305	35,324	14,463	44,999	350	95,441
Accumulated depreciation and impairment losses						
At 19 July 2017 (date of incorporation)	-	-	-	-	-	-
Transferred from EGIB (Note 43)	19,821	29,352	4,893	25,449	-	79,515
Reclassification to Investment Properties (Note 4)	(19,562)	-	-	-	-	(19,562)
Depreciation charge for the financial period	-	2,069	871	2,560	-	5,500
Disposal	-	-	(4)	-	-	(4)
At 31 December 2018	259	31,421	5,760	28,009	-	65,449
Analysed as:						
- Accumulated depreciation	50	31,421	5,760	28,009	-	65,240
- Accumulated allowance for impairment losses	209	-	-	-	-	209
	259	31,421	5,760	28,009	-	65,449
Net Book Value at 31 December 2018	46	3,903	8,703	16,990	350	29,992

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Properties consist of:

	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
2018				
Cost				
At 19 July 2017 (date of incorporation)	-	-	-	-
Transferred from EGIB (Note 43)	800	1,305	56,285	58,390
Revaluation before reclassification	3,700	225	40,852	44,777
Reclassification to Investment Properties (Note 4)	(4,400)	(1,325)	(97,137)	(102,862)
At 31 December 2018	100	205	-	305
Accumulated Depreciation and Impairment Losses				
At 19 July 2017 (date of incorporation)	-	-	-	-
Transferred from EGIB (Note 43)	54	630	19,137	19,821
Reclassification to Investment Properties (Note 4)	-	(425)	(19,137)	(19,562)
At 31 December 2018	54	205	-	259
Analysed as:				
- Accumulated depreciation	-	50	-	50
- Accumulated allowance for impairment losses	54	155	-	209
	54	205	-	259
Net Book Value at 31 December 2018	46	-	-	46

4. INVESTMENT PROPERTIES

	Freehold land and buildings	Leasehold land and buildings	Investment property under construction ("IPUC")	Total
	<----- At valuation	------>	At cost	
	RM'000	RM'000	RM'000	RM'000
2018				
At 19 July 2017 (date of incorporation)	-	-	-	-
Transferred from EGIB (Note 43)	346,500	128,000	161,208	635,708
Reclassification from Property, Plant and Equipment (Note 3)	5,300	78,000	-	83,300
Reclassification from Prepaid Land Lease Payments (Note 5)	-	64,000	-	64,000
Addition	-	-	110,052	110,052
Fair value adjustments (Note 23)	5,040	14,740	-	19,780
Reclassification		271,260	(271,260)	-
At 31 December 2018	356,840	556,000	-	912,840

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

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

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

5. PREPAID LAND LEASE PAYMENTS

	2018 RM'000
Cost	
At 19 July 2017 (date of incorporation)	-
Transferred from EGIB (Note 43)	14,496
Revaluation before reclassification	53,441
Reclassification to Investment Properties (Note 4)	(66,639)
At 31 December 2018	1,298
Accumulated amortisation and impairment losses	
At 19 July 2017 (date of incorporation)	-
Transferred from EGIB (Note 43)	3,072
Reclassification to Investment Properties (Note 4)	(2,639)
Amortisation charge for the financial period	24
At 31 December 2018	457
Analysed as:	
- Accumulated amortisation	457
Net book value at 31 December 2018	841

6. INTANGIBLE ASSETS

	Computer Software RM'000	Software Development Costs RM'000	Total RM'000
2018			
Cost			
At 19 July 2017 (date of incorporation)	-	-	-
Transferred from EGIB (Note 43)	66,490	400	66,890
Additions	12,818	-	12,818
Disposal	(36)	-	(36)
Reclassification	400	(400)	-
At 31 December 2018	79,672	-	79,672
Accumulated Amortisation			
At 19 July 2017 (date of incorporation)	-	-	-
Transferred from EGIB (Note 43)	37,237	-	37,237
Amortisation charge for the financial period	4,754	-	4,754
At 31 December 2018	41,991	-	41,991
Net book value			
At 31 December 2018	37,681	-	37,681

7. INVESTMENTS

	2018 RM'000
Malaysian government papers	316,720
Debt securities	7,214,968
Equity securities	1,278,888
Unit and property trust funds	126,334
Structured products (Note 8)	276,085
Deposits with financial institutions	780,173
	9,993,168

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

	2018 RM'000
Fair value through profit or loss ("FVTPL")	
- Designated upon initial recognition	7,200,191
- Held for trading ("HFT")	1,863,803
Fair value through other comprehensive income ("FVOCI")	270,200
Amortised Cost ("AC")	658,974
	9,993,168

The following investments mature after 12 months:

	2018 RM'000
FVTPL	
- Designated upon initial recognition	6,834,523
- HFT	334,659
FVOCI	270,200
	7,439,382

(a) FVTPL

(i) Designated upon initial recognition

At fair value	
Malaysian government papers	284,473
Debt securities:	
Unquoted in Malaysia	6,551,396
Unquoted outside Malaysia	90,102
Structured products (Note 8)	274,220
	7,200,191

7. INVESTMENTS (CONTD.)

	2018 RM'000
(a) FVTPL (Contd.)	
(ii) HFT	
At fair value	
Malaysian government papers	30,287
Unquoted debt securities in Malaysia	305,230
Equity Securities:	
Quoted in Malaysia	1,214,711
Quoted outside Malaysia	7,710
Unquoted in Malaysia	56,467
Unit and property trust funds:	
Quoted in Malaysia	9,192
Quoted outside Malaysia	117,142
Structured products (Note 8)	1,865
Fixed and call deposits with licensed banks	121,199
	1,863,803
Total financial assets at FVTPL	9,063,994
(b) FVOCI	
At fair value	
Malaysian government papers	1,960
Debt securities:	
Unquoted in Malaysia	268,240
Total financial assets at FVOCI	270,200
(c) AC	
Fixed and call deposits with:	
Licensed banks	629,688
Other financial institutions	29,286
Total financial assets at AC	658,974
Total financial assets	9,993,168

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

Fair Value of Financial Instruments

An analysis of the different fair value measurement bases used in the determination of the fair values of investments are further disclosed in Note 40(c).

8. STRUCTURED PRODUCTS

With the adoption of MFRS 9 *Financial Instruments* on 1 January 2018, structured products of the Company are classified as FVTPL. MFRS 9 removed the bifurcation of embedded derivatives concept for financial assets and hybrid financial assets would be classified and measured in their entirety at FVTPL rather than being subject to complex requirements under MFRS 139, *Financial Instruments: Recognition and Measurement*

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

	<------------ 2018	-------------->
	Principal/ Notional Amount RM'000	**Net Carrying Amount RM'000**
Financial assets at FVTPL		
Structured deposits	299,320	274,220
Index linked notes	27,063	1,865
		276,085
Total structured products (Note 7)		276,085

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

9. FINANCING RECEIVABLES

	2018 RM'000
Policy/automatic premium loans	212,110
Staff loans - secured	3,348
	215,458
Allowance for impairment losses (Note 37(i))	(285)
	215,173
Receivable after 12 months	2,886

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

9. FINANCING RECEIVABLES (CONTD.)

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

	2018 Per annum
Policy/automatic premium loans	8.00%
Staff loans	2.10%

10. REINSURANCE ASSETS

	2018 RM'000
Reinsurers' share of Life insurance contract liabilities (Note 16)	49,111

11. INSURANCE RECEIVABLES

	2018 RM'000
Due premiums including agents/brokers and co-insurers balances	19,856
Due from reinsurers and cedants	4,334
	24,190
Allowance for impairment losses (Note 37(i))	(348)
	23,842

Certain insurance receivables have been offset against the amount due to the same counterparties as follows:

	Gross carrying amount RM'000	Gross amount recognised in insurance payables offset in Statement of Financial Position RM'000 (Note 18)	Net amounts in the Statement of Financial Position RM'000
2018			
Due premiums including agents/brokers and co-insurers balances	19,856	-	19,856
Due from reinsurers and cedants	13,949	(9,615)	4,334
	33,805	(9,615)	24,190

11. INSURANCE RECEIVABLES (CONTD.)

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

12. OTHER RECEIVABLES

	2018 RM'000
Amount due from stockbrokers	75,796
Amount due from a fund manager	606
	76,402
Sundry receivables, deposits and prepayments	5,017
Allowance for impairment losses (Note 37(i))	(157)
	4,860
Income due and accrued	142,729
Allowance for impairment losses (Note 37(i))	(568)
	142,161
Amounts due from related companies* (Note 34(b)):	
- Ultimate holding company	322
- Other related companies	18,608
	18,930
	242,353

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

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

Included in sundry receivables and income due and accrued are balances due from related parties amounting to RM1,312,725.

13. DERIVATIVES

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

	2018		
	Principal/ Notional Amount RM'000	Asset RM'000	Liability RM'000
Hedging derivatives:			
Forward foreign exchange contract	78,898	737	-
Cross currency swap	51,747	-	14,168
		737	14,168
Total derivatives		737	14,168

The fair value of derivatives is derived based on valuation techniques from market observable inputs and are revalued at the reporting date based on valuations provided by the respective counterparties. An analysis of the fair value measurement bases used in the determination of the fair values of derivatives are further disclosed in Note 40(a).

For hedging derivatives:

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

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

14. SHARE CAPITAL

	Number of shares 2018 Units '000 (Note 29)	Amount 2018 RM'000
Issued and Fully Paid:		
Ordinary Shares		
At 19 July 2017 (date of incorporation)	- *	- *
Issue during the financial period*	100,000	100,000
At 31 December 2018	100,000	100,000

* The Company was incorporated on 19 July 2017 with a share capital of RM1 comprising 1 ordinary share. On 26 December 2017, the Company increased its share capital to RM100,000,000 by the issuance of 99,999,999 ordinary shares.

15. RESERVES

	Note	2018 RM'000
Non-distributable:		
FVOCI reserve	(i)	2,392
Other reserves:		
Revaluation reserve	(ii)	54,465
		56,857
Retained earnings:		
Distributable retained profits	(iii)	1,081,897
Non-distributable non-Par fund surplus	(iv)	947,512
		2,029,409
Total reserves		2,086,266

15. RESERVES (CONTD.)

(i) The FVOCI reserve arose from the changes in the fair value of the financial assets carried at FVOCI of the shareholder and non-Par fund.

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

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

(iv) Non-distributable non-Par fund surplus represents the unallocated surplus from the non-DPF fund. In accordance with the Financial Services Act 2013, the unallocated surplus is only available for distribution to the shareholders' fund upon approval by the Appointed Actuary. Upon such approval, the distribution is presented as a transfer from non-distributable non-Par fund surplus to distributable retained profits.

16. INSURANCE CONTRACT LIABILITIES

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

(i) Insurance contract liabilities

	<---------- 2018 ----------		
	Gross RM'000	Reinsurance RM'000 (Note 10)	Net RM'000
Claims liabilities	72,892	(6,673)	66,219
Actuarial liabilities	6,338,837	(42,438)	6,296,399
Participating fund unallocated surplus	616,865	-	616,865
Participating fund revaluation reserve	24,431	-	24,431
NAV attributable to unitholders	1,360,181	-	1,360,181
	8,413,206	(49,111)	8,364,095

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16. INSURANCE CONTRACT LIABILITIES (CONTD.)

(ii) Movements of insurance contract liabilities

	Claims liabilities RM'000	Actuarial liabilities RM'000	Participating fund unallocated surplus RM'000	Participating fund FVOCI reserve RM'000	Participating fund revaluation reserve RM'000	NAV attributable to unitholders RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
2018									
At 19 July 2017 (date of incorporation)	-	-	-	-	-	-	-	-	-
Transferred from EGIB (Note 43)	61,277	6,146,954	621,836	(4,621)	-	1,368,045	8,193,491	(32,963)	8,160,528
Effect of adopting MFRS 9 (Note 2.4(b))	-	-	(1,979)	4,621	-	-	2,642	-	2,642
	61,277	6,146,954	619,857	-	-	1,368,045	8,196,133	(32,963)	8,163,170
Net earned premiums	-		574,060	-	-	408,700	982,760	-	982,760
Other revenue	-	-	147,421	-	-	(151,717)	(4,296)	-	(4,296)
Net benefits and claims	11,615	-	(527,194)	-	-	(277,343)	(792,922)	(3,280)	(796,202)
Other expenses	-	-	(85,597)	-	-	(42)	(85,639)	-	(85,639)
Change in reserve:									
- Discounting	-	(44,101)	26,231	-	-	-	(17,870)	253	(17,617)
- Assumptions	-	(21,220)	16,933	-	-	-	(4,287)	(400)	(4,687)
- Policy movements	-	257,204	(127,205)	-	-	-	129,999	(12,721)	117,278
Changes in revaluation reserve	-	-	-	-	26,555	-	26,555	-	26,555
Taxation	-	-	(8,482)	-	(2,124)	12,538	1,932	-	1,932
DPF surplus transfer to shareholders' fund	-	-	(19,159)	-	-	-	(19,159)	-	(19,159)
At 31 December 2018	72,892	6,338,837	616,865	-	24,431	1,360,181	8,413,206	(49,111)	8,364,095

17. DEFERRED TAX LIABILITIES, NET

	2018 RM'000
At 19 July 2017 (date of incorporation)	-
Transferred from EGIB (Note 43)	(578,656)
Effect of adopting MFRS 9	(11,960)
	(590,616)
Recognised in:	
Income statement (Note 28)	281,341
- Taxation borne by policyholders	9,676
- Tax expense	271,665
Other comprehensive income (Note 28)	(17,285)
Insurance contract liabilities (Note 16)	(2,124)
At 31 December 2018	(328,684)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The deferred tax disclosed in the statement of financial position is presented on a net basis after offsetting as follows:

	2018 RM'000
Presented after appropriate offsetting as follows:	
Deferred tax assets	2,766
Deferred tax liabilities	(331,450)
	(328,684)

17. DEFERRED TAX LIABILITIES, NET (CONTD.)

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

Deferred Tax Assets

	Impairment on receivables RM'000	Amortisation of premiums on investments RM'000	FVOCI reserves RM'000	Impairment on investments RM'000	Total RM'000
2018					
At 19 July 2017 (date of incorporation)	-	-	-	-	-
Transferred from EGIB (Note 43)	185	983	1,123	1,852	4,143
Effect of adopting MFRS 9	-	-	(1,123)	-	(1,123)
	185	983	-	1,852	3,020
Recognised in:					
Income statement	30	1,646	-	(1,843)	(167)
- Taxation borne by policyholders	29	1,637	-	(1,852)	(186)
- Tax expense	1	9	-	9	19
Other comprehensive income	-	-	(87)	-	(87)
At 31 December 2018	215	2,629	(87)	9	2,766

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17. DEFERRED TAX LIABILITIES, NET (CONTD.)

Deferred Tax Liabilities

	Accelerated capital allowances RM'000	Fair value adjustment RM'000	Non-Participating fund unallocated surplus RM'000	Unrealised currency exchange RM'000	Unit linked RM'000	Total RM'000
2018						
At 19 July 2017 (date of incorporation)	-	-	-	-	-	-
Transferred from EGIB (Note 43)	(1,970)	(13,726)	(558,529)	(1,764)	(6,810)	(582,799)
Effect of adopting MFRS 9	-	(2,794)	(8,043)	-	-	(10,837)
	(1,970)	(16,520)	(566,572)	(1,764)	(6,810)	(593,636)
Recognised in:						
Income statement	(1,741)	2,324	271,560	968	8,397	281,508
- Taxation borne by policyholders	(1,741)	2,238	-	968	8,397	9,862
- Tax expense	-	86	271,560	-	-	271,646
Other comprehensive income	-	(17,198)	-	-	-	(17,198)
Insurance contract liabilities	-	(2,124)	-	-	-	(2,124)
At 31 December 2018	(3,711)	(33,518)	(295,012)	(796)	1,587	(331,450)

18. INSURANCE PAYABLES

	2018 RM'000
Due to agents and intermediaries	11,239
Due to reinsurers and cedants	3,304
	14,543

Certain insurance payables have been offset against the amount due from the same counterparties as follows:

	Gross carrying amount RM'000	Gross amount offset in the Statement of Financial Position RM'000 (Note 11)	Net amounts in the Statement of Financial Position RM'000
2018			
Due to agents and intermediaries	11,239	-	11,239
Due to reinsurers and cedants	12,919	(9,615)	3,304
	24,158	(9,615)	14,543

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

19. OTHER PAYABLES

	2018 RM'000
Premium deposits	118,310
Dividend payable to policyholders	78,997
Amount due to related companies* (Note 34(b)):	
- Immediate holding company	818
- Other related companies	153
Amount due to stockbrokers	39,693
Claims pending disbursement	16,657
Sundry payables and accrued liabilities	135,921
	390,549

19. OTHER PAYABLES (CONTD.)

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

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

Included in sundry payables and accrued liabilities is balance due to related parties amounting to RM970,538.

20. OPERATING REVENUE

	19.7.2017 to 31.12.2018 RM'000
Gross earned premiums	1,530,298
Investment income (Note 21)	465,844
	1,996,142

21. INVESTMENT INCOME

	19.7.2017 to 31.12.2018 RM'000
Financial assets at FVTPL	
(i) Designated upon initial recognition	
Interest income	344,161
Dividend income	
- Quoted in Malaysia	11,811
- Quoted outside Malaysia	1,148
- Unquoted in Malaysia	706
- Unit and property trusts	610
	358,436
(ii) HFT	
Interest income	20,781
Dividend income	
- Quoted in Malaysia	23,101
- Unit and property trusts	71
	43,953

21. INVESTMENT INCOME (CONTD.)

	19.7.2017 to 31.12.2018 RM'000
Financial assets at FVOCI	
Interest income	11,369
Financial assets at AC	
Interest income	23,642
Interest income from financing receivables and other loans	17,324
Rental income	39,429
Rental expense	(16,201)
Amortisation of premiums/(accretion of discount), net	(8,551)
Other investment income	55
Investment related expenses	(3,612)
Total investment income	465,844

22. REALISED LOSSES

	19.7.2017 to 31.12.2018 RM'000
Financial assets at FVTPL	
(i) Designated upon initial recognition	
Realised gains/(losses):	
- Malaysian government papers	227
- Equity securities	(124,824)
- Debt securities	17,059
- Unit and property trust funds	(10,977)
- Other investments	(665)
- Derivatives	461
	(118,719)

22. REALISED LOSSES (CONTD.)

	19.7.2017 to 31.12.2018 RM'000
(ii) HFT	
Realised gains/(losses):	
- Malaysian government papers	292
- Equity securities	(74,273)
- Debt securities	1,281
- Unit and property trust funds	551
- Other investments	(410)
	(72,559)
Financial assets at FVOCI	
Realised gains:	
- Malaysian government papers	74
- Debt securities	404
	478
Total realised losses	(190,800)

23. FAIR VALUE LOSSES

	19.7.2017 to 31.12.2018 RM'000
Investment properties	
Fair value gain (Note 4)	19,780
Financial assets at FVTPL	
(i) Designated upon initial recognition	(2,911)
(ii) HFT	(107,163)
Total fair value losses on financial assets at FVTPL	(110,074)
Total fair value losses	(90,294)

24. OTHER OPERATING EXPENSES, NET

	19.7.2017 to 31.12.2018 RM'000
Other income	
Reversal of impairment losses on	
- Financing receivables (Note 37(i))	372
- Insurance receivables (Note 37(i))	20
Bad debts recoveries	105
Sundry income	1,513
	2,010
Other expenses	
Impairment losses on	
- Other receivables (Note 37(i))	(191)
- Debt securities (Note 37(i))	(83)
Bad debts written off	(7)
Unrealised loss on foreign exchange	(1,655)
Realised loss on foreign exchange	(7,732)
Sundry expenditure	(1,206)
	(10,874)
Total other operating expenses, net	(8,864)

25. MANAGEMENT EXPENSES

	19.7.2017 to 31.12.2018 RM'000
Employee benefits expense (Note 25(a))	81,345
Directors' fee and remuneration (Note 26)	1,138
Auditors' remuneration:	
- statutory audit	438
- regulatory related services	19
Amortisation of intangible assets	4,754
Amortisation of prepaid land lease payments	24
Bank charges	4,451
Depreciation of property, plant and equipment	5,500
Other management fees	629
Professional fees	1,130

25. MANAGEMENT EXPENSES (CONTD.)

	19.7.2017 to 31.12.2018 RM'000
Assured medical fees	1,856
Rental of offices/premises	4,231
Electronic data processing expenses	3,823
Maybank shared services - information technology	3,608
Postage and stamp duties	1,904
Printing and stationery	1,471
Promotional and marketing cost	18,394
Training expenses	2,254
Utilities, assessment and maintenance	2,945
Entertainment	363
Travelling expenses	2,320
Office facilities expenses	708
Legal fees	130
Other expenses	6,796
Total management expenses	150,231
(a) **Employee benefits expense:**	
Wages and salaries	60,318
EPF, CPF and TAP	9,753
SOCSO	423
Share-based compensation	31
Other benefits	10,820
	81,345

26. DIRECTORS' FEES AND REMUNERATION

	19.7.2017 to 31.12.2018 RM'000
Directors of the company	
Executive director:	
Fees	119
Allowance	8
	127

26. DIRECTORS' FEES AND REMUNERATION (CONTD.)

	19.7.2017 to 31.12.2018 RM'000
Non-executive directors:	
Fees	889
Allowance	119
Other emoluments	3
	1,011
Total Directors' Fees and Remuneration (Note 25)	1,138

The total remuneration of the directors of the Company are as follows:

	Fees RM'000	Allowance RM'000	Other emoluments RM'000	Total RM'000
19.7.2017 to 31.12.2018				
Directors of the Company:				
Executive director				
Puan Nora Abd. Manaf	119	8	-	127
	119	8	-	127
Non-executive directors				
Datuk R. Karunakaran	175	14	-	189
Mr. Philippe Pol Arthur Latour	119	13	-	132
Dato' Johan Ariffin	151	28	-	179
Mr. Loh Lee Soon	146	28	3	177
Mr. Frank J.G Van Kempen	119	14	-	133
Mr. Wong Pakshong Kat Jeong Colin Stewart	119	14	-	133
Datuk Mohd Najib Abdullah	60	8	-	68
	889	119	3	1,011
	1,008	127	3	1,138

27. FEE AND COMMISSION EXPENSES

	19.7.2017 to 31.12.2018 RM'000
Costs incurred for the acquisition of insurance contracts expensed	104,199

28. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the period ended 31 December 2018 are:

	19.7.2017 to 31.12.2018 RM'000
Income Statement	
Income tax:	
Current financial period	
- Malaysia	256,927
Deferred taxation:	
Relating to origination and reversal of temporary differences (Note 17)	(271,665)
Income tax recovery recognised in income statement	(14,738)
Statement of Comprehensive Income	
Deferred income tax related to other comprehensive income (Note 17):	
- Fair value changes on FVOCI investments	87
- Fair value changes on Investment Properties	17,198
	17,285

28. INCOME TAX EXPENSE (CONTD.)

Reconciliation between tax expense and accounting profit

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

	19.7.2017 to 31.12.2018 RM'000
Profit before taxation	220,249
Taxation at Malaysian statutory tax rate of 24%	52,860
Tax relief on actuarial surplus transferred to shareholder's fund	(64,851)
Income not subject to tax	(3,436)
Expenses not deductible for tax purpose	689
Tax recovery for the financial period	(14,738)

Domestic income tax for shareholder's fund are calculated on the estimated assessable profit for the financial period at Malaysian statutory tax rate of 24%.

Taxation borne by policyholders

	19.7.2017 to 31.12.2018 RM'000
Income tax:	
Current financial period	17,658
Under provision of taxation in prior financial years	25
Deferred taxation:	
Relating to origination and reversal of temporary differences (Note 17)	(9,676)
	8,007

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

29. EARNINGS PER SHARE

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

	19.7.2017 to 31.12.2018
Profit attributable to ordinary equity holders (RM'000)	234,987
Number of ordinary share in issue ('000) (Note 14)	100,000
Basic and diluted earnings per share (sen)	234.99

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

30. DIVIDENDS

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial period from 19 July 2017 (date of incorporation) to 31 December 2018, of 800% on 100,000,000 ordinary shares, amounting to a dividend payable of RM800,000,000 (800 sen per ordinary share) will be proposed for shareholder's approval. The financial statements for the current financial period do no reflect such proposed dividends. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained earnings in the financial period ending 31 December 2019.

31. OPERATING LEASE COMMITMENTS

(a) Company as lessee

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

31. OPERATING LEASE COMMITMENTS (CONTD.)

(a) Company as lessee (Contd.)

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

	2018 RM'000
Within 1 year	4,159
After 1 year but not more than 5 years	15,918
	20,077

Rental expenses recognised in the income statement during the financial period are disclosed in Note 25.

(b) Company as lessor

The Company has entered into operating lease agreements on its portfolio of investment properties. The leases have remaining lease terms between 1 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The leases also include a clause that allows for early termination but requires the tenant to provide a replacement tenant or pay for the remaining unexpired lease period.

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

	2018 RM'000
Not later than 1 year	35,062
After 1 year but not more than 5 years	68,907
	103,969

Rental income on investment properties recognised in the income statement during the financial period is disclosed in Note 21.

32. OTHER COMMITMENTS AND CONTINGENCIES

	2018 RM'000
Approved and contracted for:	
Property, plant and equipment	87
Intangible assets	4,995
	5,082

33. SHARE BASED COMPENSATION

ESS

The Maybank Group ESS is governed by the by-laws approved by the shareholders of MBB at an Extraordinary General Meeting held on 13 June 2011. The ESS was implemented on 23 June 2011. It is in force for a maximum period of seven (7) years from the effective date and it is administered by the ESS Committee. The ESS consists of two (2) types of performance-based awards in the form of the ESOS and the RSU. The ESS was expired on 23 June 2018.

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

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

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

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

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

33. SHARE BASED COMPENSATION (CONTD.)

ESS (Contd.)

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

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

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

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

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

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

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

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

33. SHARE BASED COMPENSATION (CONTD.)

ESS (Contd.)

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

- Number of ESOS granted, vested and awarded are as follows:

Grant date	Number of Grant	Number of share options ('000) Original Grant	First Tranche	Second Tranche	Third Tranche	Fourth Tranche	Fifth Tranche	Sixth Tranche
23.6.2011	ESOS First Grant*	405,309 #	80,871	42,136	78,885	74,254	69,860	34,955
30.4.2012	ESOS Second Grant**	62,339 #	6,187	12,874	12,002	10,809	9,425	4,687
30.4.2013	ESOS Third Grant	53,594 #	9,200	10,523	9,198	7,861	7,382	-
30.4.2014	ESOS Fourth Grant	54,028 #	9,752	10,592	9,019	8,531	8,177	-
30.4.2015	ESOS Fifth Grant	48,170 #	11,439	11,260	10,475	9,746	-	-
30.9.2015	ESOS Special Grant	992 #	309	216	108	-	-	-

#The number of share options granted are based on the assumptions that the eligible employees met average performance targets.

*The ESOS quantum allotted under the sixth tranche of ESOS First Grant is prorated based on six months

**The ESOS quantum allotted under the first and fifth tranche of ESOS Second Grant is prorated based on six months period. The sixth tranche is awarded to the eligible employees after taking into consideration the change in the financial year end from 30 June to 31 December.

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

33. SHARE BASED COMPENSATION (CONTD.)

ESS (Contd.)

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

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

- In the implementation of ESS, MBB has established a Trust of which to be administered by the Trustee. To enable the Trustee to subscribe for new shares for the purposes of the ESS implementation, the Trustee will be entitled from time to time to accept funding and/or assistance from MBB.

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

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

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

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

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

33. SHARE BASED COMPENSATION (CONTD.)

ESGP and CESGP

MBB Group has implemented a new employee's share scheme named as the Maybank Group ESGP and the scheme was awarded to the participating companies within the Maybank Group who fulfill the eligibility criteria. The ESGP is governed by the ESGP By-Laws approved by the shareholders of MBB at an Extraordinary General Meeting held on 6 April 2017. The ESGP was implemented on 14 December 2018 for a period of seven (7) years from the effective date and is administered by the ESGP Committee.

The ESGP consists of two (2) types of performance-based awards, i.e. ESGP Shares and CESGP. The ESGP Shares may be settled by way of issuance and transfer of new Maybank shares or by cash at the absolute discretion of Maybank Group ESGP Committee.

The ESGP Shares is a form of Restricted Share Units ("RSU") and the ESGP Committee may, from time to time during the ESGP period, make further ESGP grants designated as Supplemental ESGP to a selected group of eligible employees to participate in Supplemental ESGP. This selected group may consist of selected key executives, selected key retentions and selected senior external recruits, and such grants may contain terms and conditions which may vary from earlier ESGP grants made available to selected senior management.

The CESGP is a form of Cash-settled Performance-based Restricted Share Unit Scheme ("CRSU") and the ESGP Committee may, from time to time during the ESGP period, make further CESGP grants designated as Supplemental CESGP to a selected group of eligible employees to participate in the ESGP. This selected group may consist of senior management, selected key retentions and selected senior external recruits, and such Supplemental CESGP grants may contain terms and conditions which may vary from earlier CESGP grants made available to selected employees.

Other principal features of the ESGP are as follows:

(i) The employees eligible to participate in the ESGP must be on the payroll of the Participating Maybank Group and has not served a notice of resignation or received a notice of termination. Participating Maybank Group includes Maybank and its overseas branches and subsidiaries, but excluding dormant subsidiaries.

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

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

Notwithstanding the above, MBB may terminate the ESGP at any time during the duration of the scheme subject to consent of Maybank's shareholders at a general meeting, wherein at least a majority of the shareholders, present and voting, vote in favour of termination.

34. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES

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

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

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

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

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

	19.7.2017 to 31.12.2018 RM'000
Income/(expenses):	
Ultimate holding company:	
Commissions and fees expenses	(77,447)
Dividend Income	1,419
Interest income	8,025
Rental income	2,991
Net hedging income	366
Other expenses	(2,584)
Immediate holding company:	
Rental income	444
Shared service cost	(6,732)
Remuneration of a seconded employee	(25)

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

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

	19.7.2017 to 31.12.2018 RM'000
Income/(Expenses):	
Fellow subsidiaries within the MAHB Group:	
Rental income	6,200
Rental expenses	(2,011)
Shared service income	129,741
Other related companies within the MBB Group:	
Interest income	5,019
Rental income	4,422
Maybank Shared Service - information technology expenses	(3,608)
Other income	3
Other expenses	(375)
Companies with significant influence over the MBB Group:	
Gross insurance premium income	154
Claims paid	(120)

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

	2018 RM'000
Ultimate holding company:	
Fixed and call deposits	201,072
Structured deposits	50,474
Quoted shares	23,110
Derivatives	(13,907)
Bank balances	77,528
Income due and accrued	126
Amount due from ultimate holding company (Note 12)	322
Other receivables	613
Other payables	(970)

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

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

	2018 RM'000
Immediate holding company:	
Amount due to holding company (Note 19)	(818)
Fellow subsidiaries within the MAHB Group:	
Amount due from other related companies (Note 12)	18,512
Other related companies within the MBB Group:	
Fixed and call deposits	141,018
Income and profits due and accrued	562
Other receivables	10
Amount due from other related companies (Note 12)	96
Amount due to other related companies (Note 19)	(153)
Companies with significant influence over the MBB Group:	
Outstanding premiums	136
Claims liabilities	(4)

(c) Key management personnel compensation

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

	19.7.2017 to 31.12.2018 RM'000
Short-term employee benefits	
- Salaries, allowances and bonuses	127
- Fees	1,008
- Other emoluments and benefits-in-kind	3
	1,138

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

(c) Key management personnel compensation (Contd.)

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

	2018 '000
As at 1 January	-
Appointment of key management personnel	67
Exercised	(67)
At 31 December	-

(iii) The number of shares awarded for ESGP Shares to key management personnel are as follows:

Award date	**2018 '000**
14.12.2018 - First Grant	104

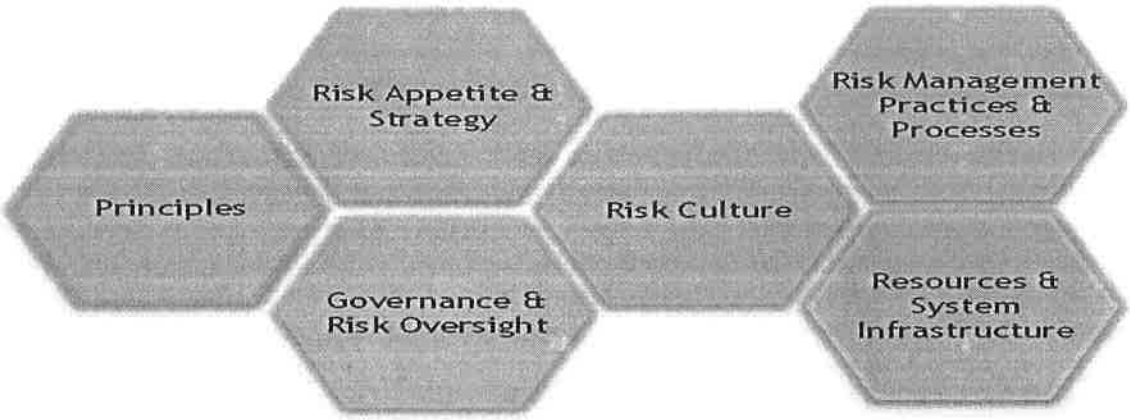
The remuneration of other key management personnel, that is the non-executive directors of the Company are as disclosed in Note 26 of the financial statements.

35. INTEGRATED RISK MANAGEMENT FRAMEWORK

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

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

35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)



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

Principles

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

- Establish risk appetite and strategy
- Assign adequate capital
- Ensure governance and oversight function
- Promote strong risk culture
- Establish adequate risk framework and policies
- Establish risk management practices and processes
- Ensure sufficient resources and system infrastructures

Risk Appetite and Strategy

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

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

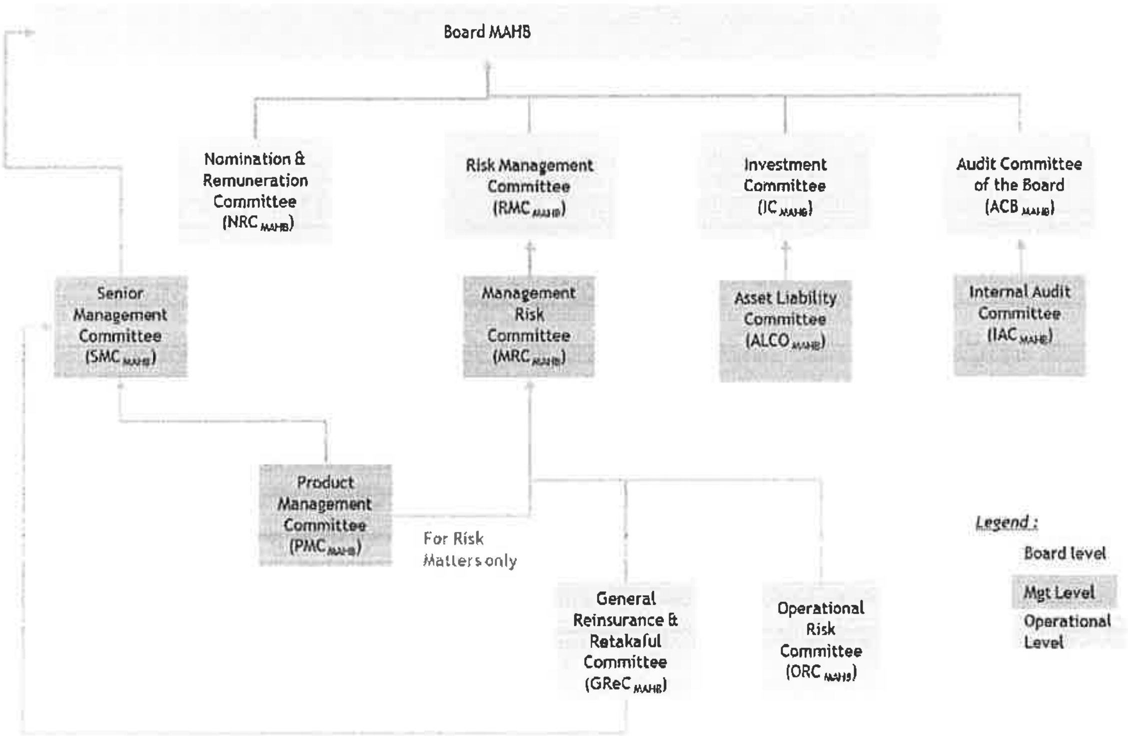
35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

Governance and Oversight

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

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

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



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

35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

Board

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

The following management level committees are established to support the Board in terms of risk governance on the business activities:

SMC

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

BGM

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

PDC

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

ALCO

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

MRC

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

IAC

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

CCC

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

35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

ITSC

ITSC supports the senior management in supervising IT risk matters, alignment of IT initiatives and business strategies, as well as long term strategic IT plans.

Risk Culture

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

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

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

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

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

Risk Management Practices and Processes

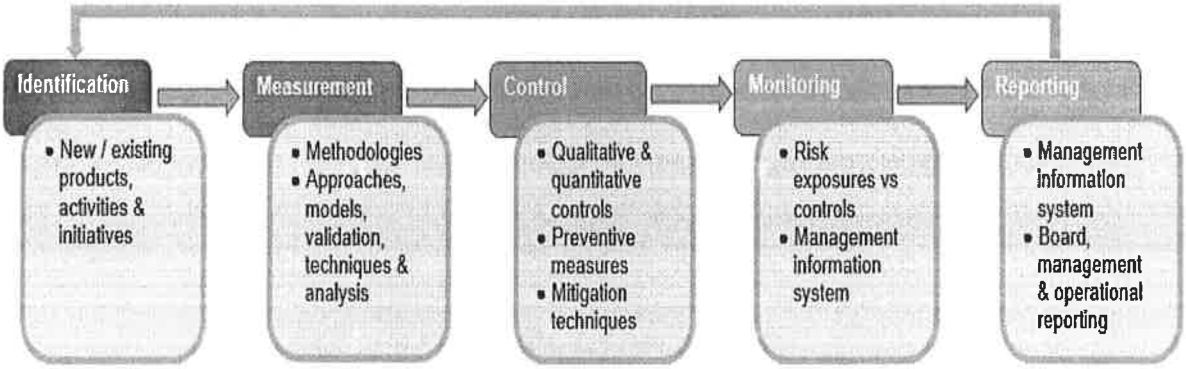
Risk management practices and processes are fundamental components of the risk principles. It is essential in enabling systematic identification, measurement, control, monitoring and reporting of risk exposures.

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

35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

Risk Management Practices and Processes (Contd.)

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



Resource and System Infrastructure

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

Resources

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

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

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

35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)

System Infrastructure

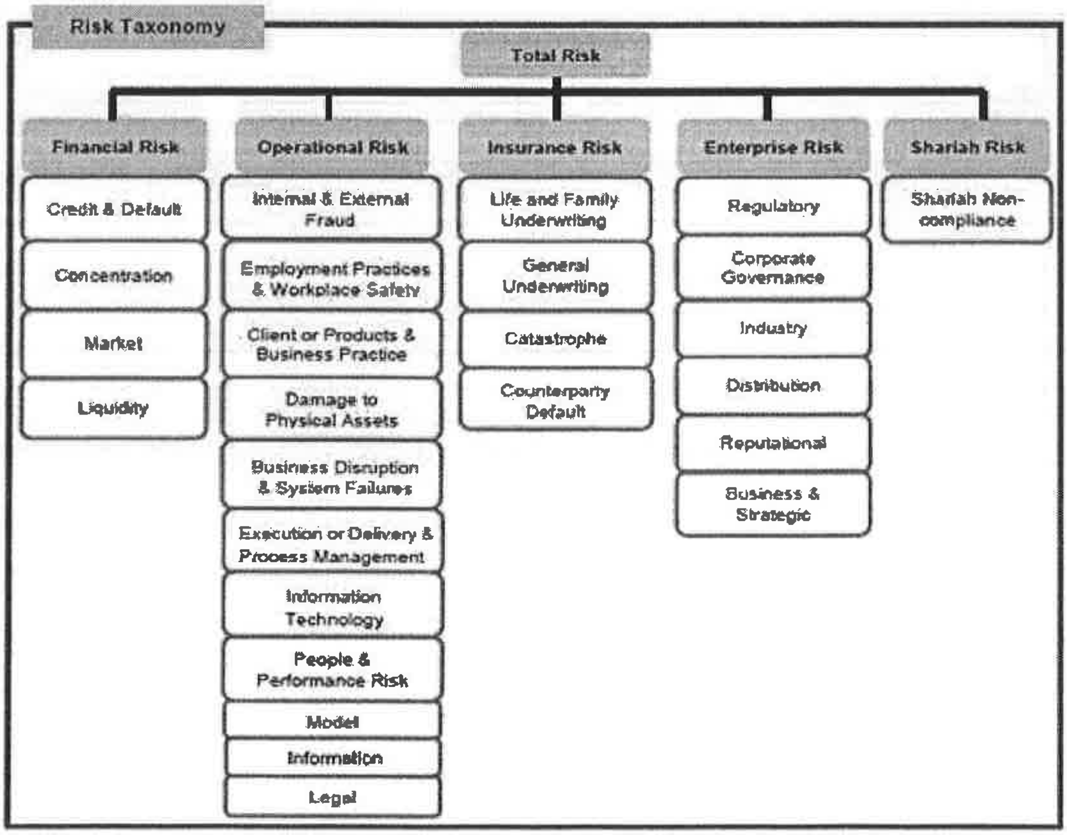
With the current complexity of business operations and activities, it is critical to have a comprehensive and integrated system infrastructure to support an enterprise-wide or consolidated view of risks. The system infrastructure should be able to provide adequate and effective data aggregation capabilities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

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

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

Risk Taxonomy

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



36. INSURANCE RISK

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

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

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

(i) Life Insurance Underwriting Risk

The Life Insurance Underwriting Risk reflects the adverse changes in the level, trend, or volatility of mortality, longevity, disability/morbidity, lapse/persistency and expense experience that is different from the expectation/best estimate assumptions, either in pricing or reserving, therefore affecting the profitability of life insurance/family takaful portfolio.

(ii) Counterparty Default Risk

The counterparty default risk reflects possible losses due to unexpected default of counterparties and debtors. The scope of the counterparty default risk category includes risk-mitigating contracts, such as reinsurance arrangements, securitisations and derivatives, and receivables from intermediaries. It does not include the defaults for financial instruments, which are covered under Credit & Default Risk (in Financial Risk Taxonomy).

ETIQA LIFE INSURANCE BERHAD
(Incorporated in Malaysia)

36. INSURANCE RISK (CONTD.)

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

	<------ 2018	------	------>
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**
Whole life	779,981	-	779,981
Endowment	3,535,560	-	3,535,560
Mortgage	866,311	(42,438)	823,873
Term assurance	288,405	-	288,405
Annuity	785,604	-	785,604
Others	82,976	-	82,976
Total	6,338,837	(42,438)	6,296,399

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

(ii) Key Assumptions

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

36. INSURANCE RISK (CONTD.)

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

(a) Discount rate

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

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

(b) Mortality and morbidity rates

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

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

(c) Lapse and surrender rates

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

36. INSURANCE RISK (CONTD.)

(ii) Key Assumptions (Contd.)

(d) Expenses

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

(iii) Sensitivity Analysis

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

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

	Change in Assumptions %	Impact on Gross Liabilities RM'000	Impact on Net Liabilities** RM'000	Impact on Profit Before Tax RM'000	Impact on Equity RM'000
2018		<-------- Increase	-------->	<-------- Decrease	-------->
Discount rate*	-1%	474,235	470,726	(200,706)	(190,377)
Mortality and morbidity rates	+/- 10% (adverse)	129,746	119,092	(95,514)	(72,590)
Lapse and surrender rates	+/- 10% (adverse)	22,444	22,703	(875)	(665)
Expenses	+10%	31,774	31,774	(24,799)	(18,847)

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

37. FINANCIAL RISKS

(i) Credit Risk

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

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

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

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

(a) The Risk Management Department and Investment Management Department actively aim to prevent undue concentration by ensuring its credit portfolio is diversified and marketable credit portfolio;

(b) The asset management research team adopts a prudent position in the selection of fixed income investments;

(c) The Risk Management Department establishes limits on maximum credit exposures. The credit limit for a counterparty is based on the counterparty's credit quality and aligned to the risk appetite; and

(d) The Risk Management Department uses Key Risk Indicators ("KRI") to alert the management to impending problems in a timely manner.

37. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Credit Exposure

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements. MFRS 9 removed the bifurcation of embedded derivatives concept for financial assets and hybrid financial assets which would be classified and measured in their entirety at FVTPL for the purposes of financial risk exposures and management.

	<------ 2018				------>
	Shareholder's Fund RM'000	Life Fund RM'000	Unit-Linked RM'000	Sub-total RM'000	Total RM'000
Financial assets at FVTPL					
(i) **Designated upon initial recognition**					
Malaysian government papers	-	284,473	-	284,473	284,473
Debt securities, structured products and NCDs	-	6,915,718	-	6,915,718	6,915,718
(ii) **HFT**					
Malaysian government papers	-	-	30,287	30,287	30,287
Debt securities, structured products and NCDs	-	-	307,095	307,095	307,095
Unit and property trust funds	-	45,066	81,268	126,334	126,334
Fixed and call deposits	-	-	121,199	121,199	121,199
Financial assets at FVOCI					
Malaysian government papers	-	1,960	-	1,960	1,960
Debt securities, structured products and NCDs	73,836	194,404	-	194,404	268,240
Financial assets at AC					
Fixed and call deposits	22,061	636,913	-	636,913	658,974
Financing receivables	3,345	211,828	-	211,828	215,173
Reinsurance assets	-	49,111	-	49,111	49,111
Insurance receivables	-	23,842	-	23,842	23,842
Other receivables	2,196	202,038	38,119	240,157	242,353
Derivative assets	-	737	-	737	737
Cash and bank balances	365	96,990	61	97,051	97,416
	101,803	8,663,080	578,029	9,241,109	9,342,912

37. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Credit quality of financial assets

The four (4) risks categories as set out and defined below, from very low to high, apart from impaired, describe the credit quality of the Company's financial investments. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.

Risk Category	Probability of default ("PD") grade	External credit ratings based on S&P's ratings	External credit ratings based on RAM's ratings
Very low	1 – 5	AAA to A-	AAA to AA1
Low	6 – 10	BBB+ to BB+	AA1 to A3
Medium	11 – 15	BB+ to B+	A3 to BB1
High	16 – 21	B+ to CCC	BB1 to C

Risk category is as described below:

Very low : Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.

Low : Obligors rated in this category have a good capacity to meet financial commitments with low credit risk.

Medium : Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.

High : Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

Impaired/ default : Obligors with objective evidence of impairment as a result of one or more events that have an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in Note 2.2(vii)(a).

Unrated : Refer to obligors which are currently not assigned with obligors' ratings due to unavailability of rating models.

Sovereign : Refer to obligors which are governments and/or government-related agencies.

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37. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Credit Exposure by rating

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

	Sovereign RM'000	Very low RM'000	Low RM'000	Medium RM'000	High RM'000	Unrated RM'000	Total RM'000
2018							
Financial assets at FVTPL							
(i) **Designated upon initial recognition**							
Malaysian government papers	284,473	-	-	-	-	-	284,473
Debt securities, structured products and NCDs	2,408,416	1,779,463	2,464,669	263,170	-	-	6,915,718
(ii) **HFT**							
Malaysian government papers	30,287	-	-	-	-	-	30,287
Debt securities, structured products and NCDs	32,569	56,321	182,299	35,906	-	-	307,095
Unit and property trust funds	-	-	-	-	-	126,334	126,334
Fixed and call deposits	-	117,199	4,000	-	-	-	121,199
Financial assets at FVOCI							
Malaysian government papers	1,960	-	-	-	-	-	1,960
Debt securities, structured products and NCDs	108,984	70,762	82,404	6,090	-	-	268,240
Financial assets at AC							
Fixed and call deposits	-	516,056	142,918	-	-	-	658,974
Financing receivables	-	-	-	-	-	215,173	215,173
Reinsurance assets	-	2,902	-	-	-	46,209	49,111
Insurance receivables	-	807	-	-	-	23,035	23,842
Other receivables	7,252	79,670	64,380	2,368	-	88,683	242,353
Derivative assets	-	737	-	-	-	-	737
Cash and bank balances	-	96,988	162	6	-	260	97,416
	2,873,941	2,720,905	2,940,832	307,540	-	499,694	9,342,912

37. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Financial assets - Reconciliation of allowance account

Significant increase in credit risk

The Company applies General Approach or 'three-stage' approach which is based on the change in credit quality of financial instruments since initial recognition to assess the impairment for financial assets. In particular, recognition of ECL is dependent on which of the three stages a particular financial instrument is assigned to. Assets move through the three stages as credit quality changes and the stages dictate how the Company measures impairment losses and applies the effective interest rate ("EIR") method with the forward-looking element to compute the ECL.

The Company has considered both quantitative and qualitative parameters in the assessment of credit risk status from the initial recognition of the securities and at the reporting date. These include the establishment of staging criteria to each stage, debt rating deterioration threshold and a waterfall approach are to determine the credit rating as at origination date and as at reporting date in accordance to the MBB Group's ECL model for debt securities portfolio.

Expected credit loss

The Company assesses the possible default events within 12 months for the calculation of the 12-month ECL in Stage 1. Given the impairment policy, the probability of default for new instruments acquired is generally determined to be minimal, in addition to the exception rule to apply zero loss given default ratio to specified financial assets which is applicable to the Company. A newly purchased or originated financial assets will be subject to ECL upon recognition in Stage 1.

To estimate the lifetime ECL for financial instruments classified in Stage 2, the Company is required to estimate the probability of default occurring in the 12 month after the reporting date and in each subsequent year throughout the expected life of the financial instruments. The lifetime ECL allowance is measured for the Company during the year are mostly due to the debt security is classified as Watchlist ("WL") or downgraded bond whichever it is assesses at the reporting date.

The determination of whether a financial assets is credit-impaired debt security under Stage 3, the ECL calculation will be based on objective evidence of impairment.

37. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Financial assets - Reconciliation of allowance account (Contd.)

The table below shows the fair value of the Company's financial assets measured by credit risk, based on the Company's risk categories.

	Stage 1	Stage 2	Stage 3	Total
2018	**12-month ECL**	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	
	RM'000	RM'000	RM'000	RM'000
Financial assets at FVOCI				
Sovereign	110,944	-	-	110,944
Very low	70,762	-	-	70,762
Low	82,404	-	-	82,404
Medium	6,090	-	-	6,090
Carrying amount - fair value	270,200	-	-	270,200
Expected Credit Loss	(156)			

Reconciliation of allowance account

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

	Stage 1	Stage 2	Stage 3	Total
2018	**12-month ECL**	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	
	RM'000	RM'000	RM'000	RM'000
Financial assets at FVOCI				
At 19 July 2017 (date of incorporation)	-	-	-	-
Transferred from EGIB	73	-	-	73
Net adjustment of loss allowance	1	-	-	1
New financial assets originated or purchased	95	-	-	95
Financial assets that have been derecognised	(13)	-	-	(13)
At 31 December 2018	156	-	-	156

37. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Other financial assets - Reconciliation of allowance account

Upon implementation of MFRS 9, the Company applies Simplified Approach where the ECL is measured at initial recognition of the receivables using a provision matrix based on historical data or also known as roll rate approach. Estimation of credit losses will use a provision matrix where insurance and reinsurance receivables are grouped based on different sales channels and different reinsurance premium type's arrangement respectively with forward-looking element being applied to it.

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

	Financing receivables (Note 9) RM'000	Insurance receivables (Note 11) RM'000	Other receivables (Note 12) RM'000	Total RM'000
2018				
Lifetime ECL				
At 19 July 2017 (date of incorporation)	-	-	-	-
Transferred from EGIB	657	275	395	1,327
Effect of adopting MFRS 9	-	93	139	232
	657	368	534	1,559
Net adjustment of loss allowance (Note 24)	(372)	(20)	191	(201)
At 31 December 2018	285	348	725	1,358

37. FINANCIAL RISKS (CONTD.)

(i) Credit Risk (Contd.)

Financial Effects of Collateral Held

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

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

The financial effect of collateral, which represents the quantification of the extent to which collateral and other credit enhancements mitigates credit risk, held for financing receivables is 97% as at 31 December 2018.

The remaining balance of financing receivables are not collateralised.

(ii) Liquidity Risk

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

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

37. FINANCIAL RISKS (CONTD.)

(ii) Liquidity Risk (Contd.)

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

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

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

(c) The Risk Management Department uses Key Risk Indicators ("KRI") to alert the management to impending problems in a timely manner.

Maturity Profiles

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

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

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37. FINANCIAL RISKS (CONTD.)

(ii) Liquidity Risk (Contd.)

Maturity Profiles (Contd.)

	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
2018						
Financial assets at:						
FVTPL	9,063,994	877,931	2,735,186	9,149,619	1,278,888	14,041,624
FVOCI	270,200	13,795	95,227	380,076	-	489,098
AC	658,974	780,173	-	-	-	780,173
Financing receivables	215,173	212,682	2,047	1,871	-	216,600
Reinsurance assets	49,111	11,713	16,255	41,009	-	68,977
Insurance receivables	23,842	23,842	-	-	-	23,842
Other receivables	242,353	242,353	-	-	-	242,353
Derivative assets	737	737	-	-	-	737
Cash and bank balances	97,416	97,416	-	-	-	97,416
Total assets	10,621,800	2,260,642	2,848,715	9,572,575	1,278,888	15,960,820
Insurance contract liabilities	8,413,206	1,849,202	1,199,325	10,592,080	-	13,640,607
Derivative liabilities	14,168	14,168	-	-	-	14,168
Insurance payables	14,543	14,543	-	-	-	14,543
Other payables	390,549	390,549	-	-	-	390,549
Total liabilities	8,832,466	2,268,462	1,199,325	10,592,080	-	14,059,867

37. FINANCIAL RISKS (CONTD.)

(iii) Market Risk

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

Market risk comprises three (3) types of risk:

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

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

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

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

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

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

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

37. FINANCIAL RISKS (CONTD.)

(iii) Market Risk (Contd.)

(a) Currency Risk

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

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

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

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

(b) Interest Rate Risk

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

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

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

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

37. FINANCIAL RISKS (CONTD.)

(iii) Market Risk (Contd.)

(b) Interest Rate Risk (Contd.)

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

Changes in variables	<---------------2018-------------->	
	Impact on profit before tax RM'000	Impact on equity* RM'000
	(Decrease)/increase	
+100 basis points	(315,092)	(266,461)
-100 basis points	315,092	266,461

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

(c) Equity Price Risk

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

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

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

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

37. FINANCIAL RISKS (CONTD.)

(iii) Market Risk (Contd.)

(c) Equity Price Risk (Contd.)

		<----------2018----------->	
Market Index	**Changes in variables**	**Impact on profit before tax RM'000**	**Impact on equity* RM'000**
		(Decrease)/increase	
Bursa Malaysia	+10%	26,655	20,880
	-10%	(26,655)	(20,880)

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

(iv) Concentration Risk

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

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

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

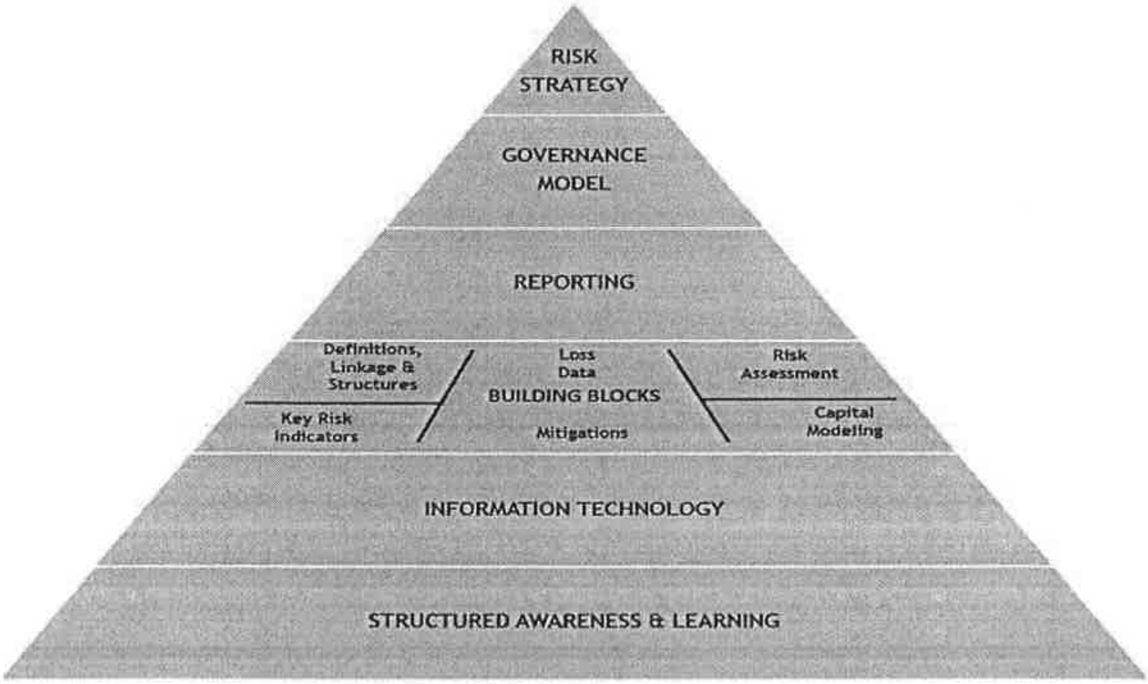
The Company complied with BNM stipulated limits during the financial period and had no significant concentration risk.

38. OPERATIONAL RISK

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

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

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



The continuous review and monitoring of the risks and the control effectiveness are vital for an effective operational risk management. Hence, specific tools and methodologies to identify, assess, measure, control, monitor and report the operational risks that affect the Company are established. Those include among other things: Risk and Control Self-assessment, Key Risk Indicators, Incident Management & Data Collection, Information Technology and through awareness and learning programme.

38. OPERATIONAL RISK (Contd.)

Operational Risk Taxonomy

(i) Internal Fraud

Losses due to illegal acts (explicitly prohibited by the internal policies/guidelines or external regulations/law provisions) committed by employees. It also include fraudulent activities/theft perpetrated by employees or in collusion with external party against the company/organisation.

(ii) External Fraud

Losses due to fraudulent activities/theft perpetrated by third party against the company/organisation. External fraud could arise from system security risk, i.e. failure to provide a secure system platform or an activity/incident that can and will threaten the integrity of a system, which will in turn affect the reliability and privacy of data.

(iii) Employment Practices and Workplace Safety

(i) Employee relations - failure to maintain positive employer-employee relationships that contributes to unsatisfactory productivity, demotivation, and low morale;

(ii) Safe environment - failure in the provision of a safe working environment from events that could endanger the safety of the employees; and

(iii) Diversity & discrimination - failure to provide equalities in the employment practice.

(iv) Client or Products and Business Practices

This risk covers information risk as well as conduct risk, and it is sub-divided into five risk types, namely suitability disclosure and fiduciary, improper business or market practices, product flaws, selection sponsorship and exposure, and advisory activities.

(v) Damage to Physical Assets

Damage to physical assets due to force of nature, or events which are not within due control of human. It also includes accidents and public safety that relates to failure in the provision of a safe environment from events that could endanger the safety of the general public from significant danger, injury/harm, or damage.

38. OPERATIONAL RISK (Contd.)

Operational Risk Taxonomy (Contd.)

(vi) Business Disruption and System Failures

Failure in the provision of an effective information technology infrastructure (e.g. hardware, networks, software) to support the current and future needs of the business in an efficient, cost-effective and well controlled manner.

(vii) Execution or Delivery and Process Management

The risk relates to transaction capture or execution and maintenance, monitoring and reporting, customer intake and documentation, customer or client account management, vendors and suppliers.

(viii) Information Technology Risk

Risk which impacts confidentiality, availability and integrity of information and services related to information technology as well as cyber risk that can lead to losses due to cyber-crime and cyber terrorism.

(ix) People & Performance Risk

Inability to identify the suitable talent/personnel to deliver/manage and deliver/control business process/function/entity/business units, do not possess the necessary knowledge, skills and experience needed to ensure that critical business objectives are achieved and significant business risk are reduced to an acceptable level.

(x) Model Risk

Risk of a model not performing the tasks or capture the risks it was designed to.

(xi) Information Risk

Risk of loss of information from day-to-day operations could lead to financial risk, operational risk, reputational risk, legal risk and regulatory sanctions.

(xii) Legal Risk

Risk of incurring actual or potential loss that arises due to interalia, flawed documentation, change in regulations/laws, new judicial decisions, legal jurisdiction of our counterparties and choice of governing law that threatens the capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities.

39. ENTERPRISE RISK

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

(i) Regulatory Risk

Losses with regard to regulatory changes impacting, for example allowable product features, underwriting practices, profit sharing and solvency, which may affect the volume or quality of new sales or the profitability of in force business. Regulatory changes include all external compliance aspects such as tax environment and legislation.

(ii) Corporate Governance Risk

Risk of failure in the process and structure used to direct and manage the business and affairs of MAHB Group towards enhancing business prosperity and corporate accountability with ultimate objective of realising long-term shareholder value while taking into account the interests of other stakeholders.

(iii) Industry Risk

Risk arising from changes in opportunities, threats, competitors and other conditions affecting the attractiveness of an industry.

(iv) Distribution Risk

This is the risk of a loss due to distribution plans deviating adversely from expectations, especially in reliance on external parties and partners for the distribution and may include causes such as lack of alignment of incentives, poor relationship management and lack of sufficient bargaining power in the relationship.

(v) Reputational Risk

Risk damaged by one or more than one reputation event, as reflected from negative publicity about the business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence, resulting in costly litigation, or lead to a decline in its customer base, business or revenue.

39. ENTERPRISE RISK (CONTD.)

(vi) Business & Strategic Risk

Risk of current or prospective impact on earnings, capital, reputation or standing arising from changes in the environment the MAHB Group operates in and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technological changes.

Risk of failure in directing and managing the business and affairs towards enhancing business prosperity and corporate accountability with ultimate objective of realising long-term shareholder value while taking into account the interests of other stakeholders.

40. FAIR VALUE MEASUREMENTS

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

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

(a) Valuation principles

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

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

40. FAIR VALUE MEASUREMENTS (CONTD.)

(a) Valuation principles (Contd.)

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

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

- Level 1 : Active Market – Quoted price

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

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

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

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

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

  Refers to financial instruments where fair values are measured using unobservable market inputs. The valuation technique is consistent with level 2. The chosen valuation technique incorporates management's assumptions and data.
  Examples of level 3 instruments include corporate bonds in illiquid markets, private equity investments and investment properties.

40. FAIR VALUE MEASUREMENTS (CONTD.)

(b) Valuation techniques

(i) Cash and cash equivalents and other receivables/payables

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

(ii) Financing receivables

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

(iii) Insurance receivables and payables

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

(iv) Investments

Investments have been accounted for in accordance with the accounting policies as disclosed in Note 2.2(vi) and 2.2(vii)(a). The carrying amounts and fair values of investments are disclosed in Note 7.

(v) Investment properties

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

40. FAIR VALUE MEASUREMENTS (CONTD.)

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

	Valuation techniques used			
	Level 1 Using Quoted market prices RM'000	Level 2 Using Observable inputs RM'000	Level 3 Using Significant unobservable inputs RM'000	Total RM'000
2018				
Assets				
Investment properties	-	-	912,840	912,840
Financial assets at FVTPL				
(i) Designated upon initial recognition				
Malaysian government papers	-	284,473	-	284,473
Debt securities, structured products and NCDs	-	6,915,718	-	6,915,718
(ii) HFT				
Equity securities	1,222,421	-	56,467	1,278,888
Malaysian government papers	-	30,287	-	30,287
Debt securities, structured products and NCDs	-	307,095	-	307,095
Unit and property trust funds	126,334	-	-	126,334
Fixed and call deposits with licenced banks	-	121,199	-	121,199
Financial assets at FVOCI				
Malaysian government papers	-	1,960	-	1,960
Debt securities, structured products and NCDs	-	268,240	-	268,240
Derivative assets	-	737	-	737
Total assets	1,348,755	7,929,709	969,307	10,247,771
Liabilities				
Derivative liabilities	-	(14,168)	-	(14,168)
Total liabilities	-	(14,168)	-	(14,168)

40. FAIR VALUE MEASUREMENTS (CONTD.)

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

Assets and liabilities of the Company are recognised in the financial statements on a recurring basis. The Company determine whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1 and Level 2 for the Company during the financial period ended 31 December 2018.

(e) Movements of Level 3 financial instruments and non-financial assets

2018	Investment properties RM'000	Financial instruments measured at fair value HFT RM'000
At 19 July 2017 (date of incorporation)	-	-
Transferred from EGIB	635,708	6,749
Effect of adopting MFRS 9	-	42,678
	635,708	49,427
Recognised in the income statement:		
Fair value gain	19,780	7,040
Addition	110,052	-
Transferred from property, plant and equipment	83,300	-
Transferred from prepaid land lease payments	64,000	-
At 31 December 2018	912,840	56,467
Total gains recognised in income statement at the end of the reporting period	19,780	7,040

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

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

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

40. FAIR VALUE MEASUREMENTS (CONTD.)

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

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

41. REGULATORY CAPITAL REQUIREMENT

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

Company

	2018 RM'000
Eligible Tier 1 Capital	
Share capital (paid up)	100,000
Reserves, including retained earnings	3,900,533
	4,000,533
Tier 2 Capital	
Revaluation reserve	90,362
FVOCI reserves	2,392
	92,754
Amount deducted from Capital	(37,700)
Total Capital Available	4,055,587

42. COMPARATIVE INFORMATION

There are no comparative figures as this is the first set of audited financial statements prepared by the Company since its incorporation.

43. ASSETS TRANSFERRED FROM ETIQA GENERAL INSURANCE BERHAD ("EGIB")

On 1 January 2018, the life business were transferred into the Company from EGIB upon successful completion of the Licence Split.

Statement of financial position disclosure

The major classes of assets, reserves and liabilities transferred in upon incorporation of the Company as at 1 January 2018 are as follows:

	Note	2018 RM'000
Assets		
Property, plant and equipment	3	63,908
Investment properties	4	635,708
Prepaid land lease payments	5	11,424
Intangible assets	6	29,653
Investments		9,561,887
Financing receivables		208,797
Reinsurance assets	16	32,963
Insurance receivables		20,669
Other receivables		236,432
Derivative assets		2,230
Cash and bank balances		142,199
Total Assets		10,945,870
Equity		
Non-distributable non-Par fund surplus		1,768,679
Available-for-sale reserves		(2,481)
Total Equity		1,766,198
Liabilities		
Insurance contract liabilities	16	8,193,491
Derivative liabilities		25,791
Deferred tax liabilities, net	17	578,656
Insurance payables		15,281
Other payables		366,453
Total Liabilities		9,179,672
Total Equity and Liabilities		10,945,870

44. INSURANCE FUNDS

STATEMENT OF FINANCIAL POSITION BY FUNDS

	Company	Shareholder's Fund	Life Fund
	2018 RM'000	2018 RM'000	2018 RM'000
Assets:			
Property, plant and equipment	29,992	-	29,992
Investment properties	912,840	-	912,840
Prepaid land lease payments	841	-	841
Intangible assets	37,681	-	37,681
Investments	9,993,168	101,535	9,891,633
Financing receivables	215,173	3,345	211,828
Reinsurance assets	49,111	-	49,111
Insurance receivables	23,842	-	23,842
Other receivables	242,353	2,196	240,157
Derivative assets	737	-	737
Cash and bank balances	97,416	365	97,051
Total Assets	11,603,154	107,441	11,495,713
Equity and liabilities:			
Share capital	100,000	100,000	-
Reserves	2,086,266	2,086,266	-
Total Equity	2,186,266	2,186,266	-
Insurance contract liabilities	8,413,206	-	8,413,206
Derivative liabilities	14,168	-	14,168
Deferred tax liabilities, net	328,684	306,461	22,223
Insurance payables	14,543	-	14,543
Other payables[1]	390,549	(2,642,214)	3,032,763
Current tax liabilities	255,738	256,928	(1,190)
Total Liabilities	9,416,888	(2,078,825)	11,495,713
Total Equity and Liabilities	11,603,154	107,441	11,495,713
Inter fund balances	-	(2,643,723)	2,643,723

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

44. INSURANCE FUNDS (CONTD.)

INCOME STATEMENT/REVENUE ACCOUNT BY FUNDS

	Company	Shareholder's Fund	Life Fund
	19.7.2017 to 31.12.2018 RM'000	19.7.2017 to 31.12.2018 RM'000	19.7.2017 to 31.12.2018 RM'000
Operating revenue	1,996,142	4,378	1,991,764
Gross earned premiums	1,530,298	-	1,530,298
Premiums ceded to reinsurers	(25,469)	-	(25,469)
Net earned premiums	1,504,829	-	1,504,829
Investment income	465,844	4,378	461,466
Realised loss	(190,800)	(688)	(190,112)
Fair value losses	(90,294)	(357)	(89,937)
Other operating (expenses)/income, net	(8,864)	(179)	(8,685)
Other revenue	175,886	3,154	172,732
Gross benefits and claims paid	(1,035,118)	-	(1,035,118)
Claims ceded to reinsurers	13,583	-	13,583
Gross change in contract liabilities	(192,642)	-	(192,642)
Change in contract liabilities ceded to reinsurers	16,148	-	16,148
Net benefits and claims	(1,198,029)	-	(1,198,029)
Management expenses	(150,231)	(4,401)	(145,830)
Fee and commission expenses	(104,199)	-	(104,199)
Taxation borned by policyholders	(8,007)	-	(8,007)
Other expenses	(262,437)	(4,401)	(258,036)
Surplus/(deficit) for the period	220,249	(1,247)	221,496
Taxation	14,738	14,738	
Net profit for the period	234,987	13,491	221,496
Surplus transfer from:			
- Life Par Funds	-	19,159	(19,159)
- Life Non-Par Funds	-	202,337	(202,337)
Net profit for the period	234,987	234,987	-

44. INSURANCE FUNDS (CONTD.)

STATEMENT OF CASH FLOWS BY FUNDS

	Company	Shareholder's Fund	Life Fund
	19.7.2017 to 31.12.2018 RM'000	19.7.2017 to 31.12.2018 RM'000	19.7.2017 to 31.12.2018 RM'000
Cash flows from:			
Operating activities	524,770	(19,352)	544,122
Investing activities	(669,553)	(80,283)	(589,270)
Financing activities	100,000	100,000	-
Net (decrease)/increase in cash and cash equivalents	(44,783)	365	(45,148)
Cash and cash equivalents:			
Cash and cash equivalents at date of incorporation	-	-	-
Transfer from EGIB	142,199	-	142,199
Cash and cash equivalents at end of financial period	97,416	365	97,051