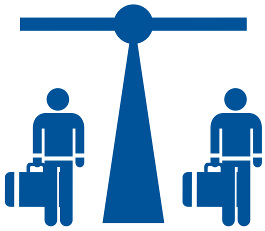
We believe that responsible corporate governance sets the foundation for sustainable business performance. With this in mind, various corporate governance practices have been implemented to ensure that our business is conducted in a transparent manner with full accountability and integrity.



90%

of our employees feel Allianz has a high level of integrity.

Sustainability Report

Governance

We recognise the importance of sound internal controls in safeguarding our assets, our customers, and our shareholders' investments. We have established various internal controls in the areas of risk management, finance, operations and compliance to ensure that our actions today are taken with long-term value in mind.

Business Ethics

We understand that our employees and intermediaries are at the frontline of the Allianz brand and the avenue through which we provide our services. We hold our representatives to high ethical standards through our policies and codes of conduct.

Our employees are required to adhere to various guidelines and policies which set the standards for business conduct covering the topics, inter alia, non-discrimination and harassment, dealing with confidential information, insider trading, external communication, conflicts of interest, anti-corruption and bribery, gifts and entertainment and protection of our property and natural resources.

An Allianz Code of Ethics for Senior Financial Professionals is in place and applicable to our senior management and personnel responsible for our finance, control and accounting functions. This Code governs ethical and proper conduct of such personnel in both the private and professional spheres, particularly relating to the handling of conflicts of interest and corporate disclosure. Annually, our Directors and key responsible persons are required to declare their fulfilment of criteria under the Fit and Proper Policy and Procedures for Key Responsible Persons.

Anti-Money-Laundering and Counter Financing of Terrorism ("AML/CFT") Policies and Procedures are in place to prevent and detect money laundering and terrorism financing activities. Throughout 2013, AML/CFT training sessions were held to reinforce topics such as due diligence and recognising/detection of suspicious transactions. We conduct continuous training to keep abreast with the latest requirements and to ensure that our employees fully understand this subject matter.

Our life insurance and general insurance subsidiaries are members of the Life Insurance Association of Malaysia and the General Insurance Association of Malaysia respectively. Through both associations, we actively interact with our peers on issues affecting the insurance industry. Employees of our insurance subsidiaries are required to adhere to the Codes of Ethics issued by the respective associations.

Our insurance intermediaries are guided by the Sales Policy and Sales Agent Code of Conduct which are minimum standards to be observed by intermediaries acting on our behalf. We have established an Ethics and Compliance Committee each in our life insurance and general insurance subsidiaries to deal with intermediary behaviour that may be contrary to the said Sales Policy and Sales Agent Code of Conduct.

Business Relationships

We ensure that our contractual obligations are based on ethics and long-term. We incorporate clauses on certain subject matter like anti-bribery/anti-corruption and data protection in our contracts as we expect our partners to conform to the same high standards that we have set for ourselves.

Our Anti-Corruption Policy outlines controls and behavioural guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments.

The Allianz Gifts and Entertainment Policy sets out the minimum standards for gift and entertainment handling to and from clients, business partners, government officials or relevant persons. It aims to avoid any issue of conflicts of interest or threat to our professional independence. In February 2014, we also adopted the Allianz Group's Compliance Guidance in Relation to the Allianz Gifts and Entertainment Policy: Sponsoring & Hospitality ("SH Guidance"), which is an addition to the Gifts and Entertainment Policy. The SH Guidance focuses on "corporate hospitality" i.e. invitations extended to or by Allianz employees to ensure that the principles of transparency and accountability are observed.

Benchmarking against Local and International Standards

We are not only subject to the local laws, regulations and guidelines, but are also firm followers of international codes and standards. For example, in the field of property risk assessment, our 'risk experts', comprising of a pool of Risk Engineers, analyse the risks of a client from a property point of view, cross-checking the analysis against the respective local and international codes and/or standards, to see whether appropriate property conservation is in place and carried out accordingly. Besides the local 'Malaysian Standards' ("MS") issued by the 'Jabatan Standard Malaysia', we also refer to International standards such as the FM Global Data sheets, the National Fire Protection Association, the Loss Prevention Council, British Standard, Munich Re as well as the Allianz Group Standard. Our constant revision of policies and guidelines across the business ensure that we are up to date with the latest global and local standards.

Sustainability Report

Governance

Investment with a Long-Term Perspective

Our investments are guided by the Allianz Group's Investment Manual which sets out detailed investment procedures and controls, including an Investment Code of Ethics to ensure that the Company's interests prevail over the personal interests of the employees. We also comply with Allianz Group's Environmental Social Corporate watch lists and the local restricted list including companies that are involved in sensitive areas, such as those dealing with controversial issues or which are subject to legal and ethical restrictions. Our investments are not only considered based on their financial sustainability but also on their long-term social and environmental sustainability.

A Secure Avenue for Reporting Irregularities

An Integrity Committee coordinates activities concerning fraud and the handling of whistleblowing incidents. We adopt the Allianz Group Anti-Fraud Policy which defines fraud events and their follow-up actions; and the Allianz Group Whistleblowing Policies and Procedures which describes the Allianz Group's Speak-up policy and how to handle whistleblowing incidents. Having these systems in place promotes transparency and accountability throughout Allianz.

Working with Credible Organisations

The Vendor Integrity Screening process ("VIS") aims to ensure a proper integrity due diligence before any vendor is engaged. If the screening does not reveal any negative or adverse findings, a contract may be concluded with the said vendor. 233 suppliers have been screened and this list is compiled into a Central Vendor Directory to facilitate the procurement requirements of all departments.

Similar to the VIS, the Allianz4Good Department applies an Integrity Check for Non-Profit/Non-Governmental Organisations to all potential partners from the social sector. We work with reputable and reliable partners to ensure that our social commitments are on par with the high ethical and legal standards of our business dealings.

Developing Products

We established a Product Development Management Framework in accordance with the requirements of the Guideline on Introduction of New Products for Insurance Company and Takaful Operators issued by BNM. This Framework aims to promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risks during the development and marketing stages. Having the Framework in place also ensures that the products we develop are appropriate to the needs, resources and financial capabilities of the targeted consumer segments, thus helping us to be an innovative company that provides access to finance through relevant products.

Preparing for Regulatory Changes

We have taken steps to prepare for and comply with a number of regulatory changes impacting the industry. For example, with the enforcement of the Personal Data Protection Act 2010 ("PDPA") from 15 November 2013, all internal processes, practices and policies pertaining to the collection, processing and storage of personal data are being reviewed and the necessary steps are being taken to ensure compliance with the PDPA. We have also collaborated with other members of the industry to develop a collective draft Code of Privacy Practice for submission to the Personal Data Protection Commissioner.

Ensuring Business Continuity

We have in place a comprehensive Business Continuity Plan ("BCP") to ensure that critical functions can be recovered and restored within a predetermined time upon the occurrence of any disastrous events. A dedicated Business Continuity Management team coordinates a BCP Exercise annually and testing of our Disaster Recovery Plan twice a year in compliance with BNM's Guideline. The objective of this is to enhance the awareness of business continuity and to test the readiness of disaster plans and business continuity procedures in a simulated environment.

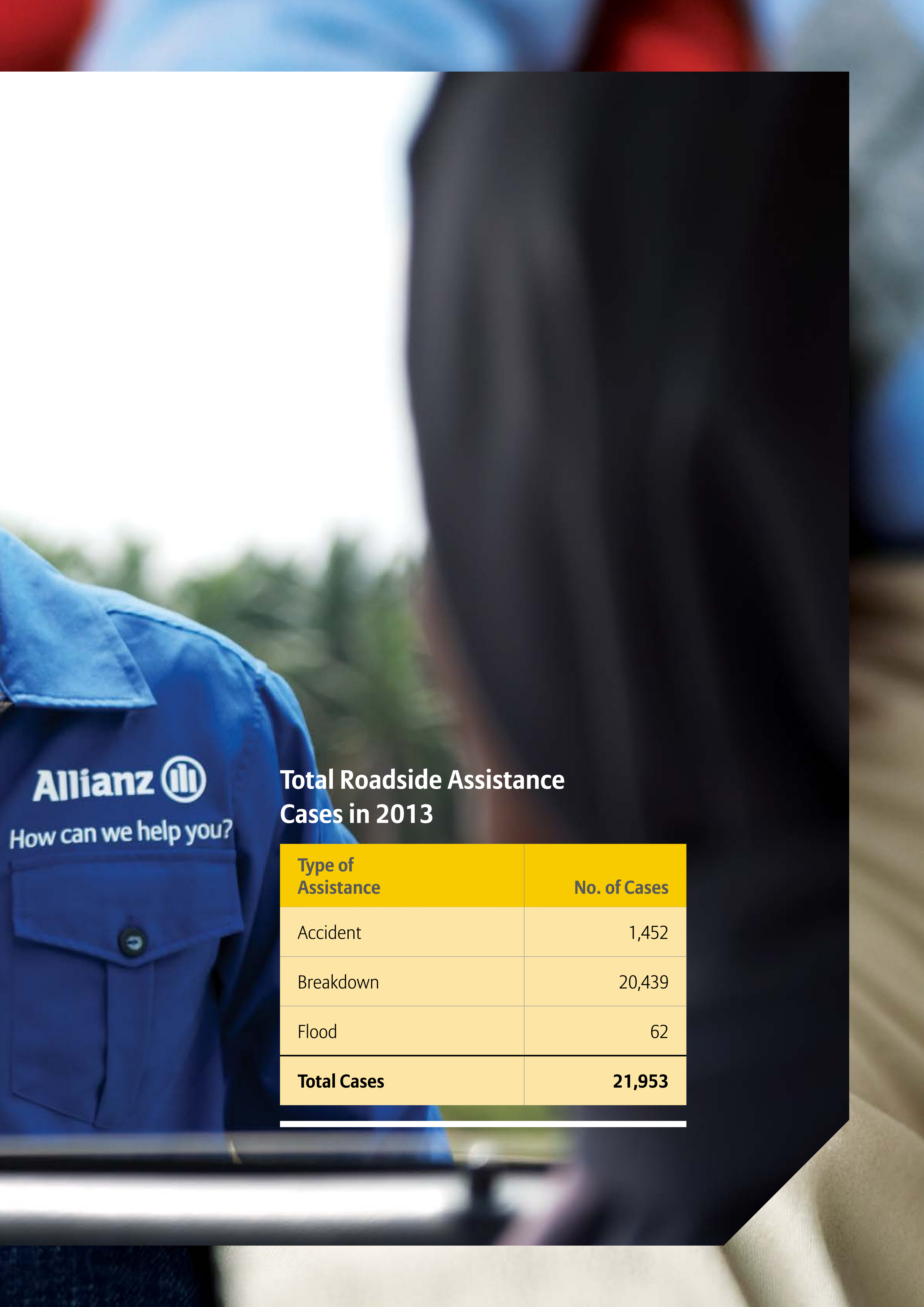
Recognised for Good Governance

In recent years, we have taken steps to improve our transparency through the release of our Sustainability Report and further strengthening of our governance structure. We are honoured that our efforts have been recognized as we were awarded the Top Overall Corporate Governance Award under the Mid-Cap category in the Malaysia-ASEAN Corporate Governance Index 2013 Awards presented by the Minority Shareholder Watchdog Group. The Awards were given to companies that had scored well in the ASEAN Corporate Governance Scorecard, a standardised scorecard adopted by ASEAN member countries, to assess public listed companies' adoption of and compliance with corporate governance recommended principles and best practices. This award represents a milestone in our continuing journey to sustainability and governance excellence.

For more information on our Corporate Governance practices, please refer to the Statement on Corporate Governance and the Statement of Risk Management and Internal Control presented on pages 92 to 118 of the Annual Report.

We are there
in times of need


We're there
when you
need us most



Total Roadside Assistance Cases in 2013

Type of Assistance	No. of Cases
Accident	1,452
Breakdown	20,439
Flood	62
Total Cases	**21,953**

Audit Committee Report

COMPOSITION OF AUDIT COMMITTEE ("AC")

Composition of AC	Status of Directorship
Foo San Kan (Chairman)	Independent Non–Executive Director
Tan Sri Razali Bin Ismail (Member)	Independent Non–Executive Director
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Member)	Independent Non–Executive Director

TERMS OF REFERENCE

1. Composition

1.1 The AC should consist of a minimum of 3 members appointed from the Board of Allianz Malaysia Berhad ("Company") and shall act as the AC for the Company and its subsidiaries (collectively referred to as "Group").

1.2 The members of the AC should be appointed by the Board, after taking into consideration the recommendations of the Nominating Committee. In determining the appropriate size and composition of the AC, the Board should in particular, take into consideration the necessary mix of skills and experience required for the AC to effectively discharge its responsibilities. The term of office and performance of the AC and each of its members must be reviewed by the Board at least once every 3 years to determine whether the AC and members have carried out their duties in accordance with the terms of reference.

1.3 If for any reason the number of AC members at any point in time is reduced to below 3, notification should be provided to Bank Negara Malaysia ("BNM") within 2 weeks. The notification should be addressed to Pengarah, Jabatan Penyeliaan Insurans dan Takaful ("JP3"). The Board should fill the vacancy/vacancies within 3 months.

1.4 Notification should also be provided to JP3 where any director ceases to be a member of the AC within 2 weeks of the cessation. Such notifications should include reasons for the cessation.

2. Independence of AC Members

2.1 No AC member should be employed in an executive position in the Company or its related corporations (as defined under section 6 of the Companies Act, 1965), or otherwise have a relationship which in the opinion of the Board will interfere with the exercise of independent judgement in carrying out the functions of the AC. In addition, members of the AC should not be directly responsible for, or part of any committee involved in, the management functions of the Group.

2.2 As best practice, all AC members should be independent. Where this cannot be achieved, the majority of the AC members, including the Chairman, should be independent.

2.3 An independent director shall comply with the criteria for independent director as prescribed by BNM and Bursa Malaysia Securities Berhad ("Bursa Securities").

3. Qualification, Experience, Knowledge and Skills

3.1 Candidates for the AC should have sound judgement, objectivity, an independent attitude, management experience and adequate knowledge of the industry. They should be committed to the task and demonstrate a keen perception of the internal control environment within the Group and an ability to make probing inquiries.

Audit Committee Report

3.2 Collectively, the AC should have a wide range of necessary skills to undertake its duties and responsibilities. Ideally, all AC members should be able to understand the financial reporting process and be financially literate. At least one member of the AC:-

(a) must be a member of the Malaysian Institute of Accountants; or

(b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-

(i) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or

(ii) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or

(c) fulfils any of the following requirements or the requirements as prescribed by Bursa Securities including any amendment that may be made from time to time by Bursa Securities:-

(i) a degree/master/doctorate in accounting or finance and at least 3 years' post qualification experience in accounting or finance; or

(ii) a member of any professional accountancy organisation which has been admitted as a full member of the International Federation of Accountants and at least 3 years' post qualification experience in accounting or finance; or

(iii) at least 7 years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

3.3 No alternate Director shall be appointed as a member of the AC.

3.4 In addition, in view of the important role of the AC in ensuring that there are adequate checks and balances within the operations of the Group, all AC members, either individually or collectively, are also expected to be familiar with areas included in the scope of internal insurance audits, including risk management, underwriting, investment and claims management.

4. Authority

4.1 The AC should have the authority to investigate any matter within its terms of reference and should have unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Group.

4.2 The AC should be kept regularly updated on audit matters and be notified immediately of any fraud and significant irregularities or internal control deficiencies discovered by Management or the internal audit function. Fraud and irregularities discovered by Management should be referred to the Integrity Committee or internal audit function, where applicable, for investigation.

4.3 The AC should have access to copies of audit reports (including interim financial audits) on a timely basis and should be kept regularly informed of corrective actions arising from internal and external audit findings.

4.4 The AC should have adequate resources to perform its duties and discharge its responsibilities and should be authorised to obtain independent professional advice as considered necessary.

Audit Committee Report

4.5 The AC should have direct communication channels with the external auditors and person(s) carrying out the internal audit function and activity.

4.6 The AC must be able to convene meeting with the external auditors, the internal auditors or both, excluding the attendance of other directors and the employees of the Group, whenever deemed necessary.

4.7 The Chairman of the AC should engage on a continuous basis with senior management, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.

5. Meetings

5.1 The AC should hold regular meetings in order to effectively fulfil its duties.

5.2 In addition, the Chairman of the AC should call a meeting of the AC if requested to do so by any AC member, the Management or the internal or external auditors.

5.3 The quorum of AC meetings should be at least two thirds of the members with independent directors forming the majority.

5.4 While the AC may invite any person to be in attendance to assist it in its deliberations (e.g. relevant officers concerned in the management of the Group, the external auditor and the internal auditor), the AC should ensure that it meets exclusively when necessary.

5.5 The company secretary should act as secretary of the AC and should be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to AC members within a reasonable timeframe prior to each meeting.

5.6 The company secretary should also be responsible for keeping the minutes of meetings of the AC, their timely circulation to AC members and other members of the Board and following up on outstanding matters in relation to the meetings.

5.7 The Chairman of the AC should report to the Board on the deliberations of the AC on a regular basis. In addition, the Chairman should also present a summary of all significant matters (highlighting the risks and implications) and resolutions made by the AC at Board meetings.

6. Duties and responsibilities

The AC's duties and responsibilities in relation to the internal audit and external audit functions should include the following:-

6.1 Internal Audit

6.1.1 Governance

6.1.1.1 The AC should:-

(a) ensure that the internal audit function is distinct and has the appropriate status and the necessary authority within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives;

(b) ensure the effectiveness of the internal audit function;

Audit Committee Report

(c) ensure the effective organisation of the internal audit function, with due regard to the professionalism, capacity and competence of the internal audit personnel;

(d) review and approve the audit plan and budget required under Part B of BNM/RH/GL 013-4: Guidelines on Internal Audit Function of Licensed Institutions ("Guidelines on Internal Audit Function");

(e) review the audit charter and submit its recommendation to the Board for consideration;

(f) ensure that reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, internal audit reports should not be subject to the clearance of the chief executive officer or any executive director;

(g) ensure that the internal audit function is independent of the activities it audits and that the internal audit function reports directly to the AC; and

(h) establish an appropriate mechanism to address and managing situations where there is a threat to the objectivity of the internal audit function.

6.1.1.2 The AC should also review the scope of internal audit procedures, in particular:-

(a) any restrictions placed on access by the internal auditors to any of the Group's records, assets, personnel or processes which are relevant to the conduct of audits;

(b) appropriateness of the risk assessment methodology employed pursuant to Part B of the Guidelines on Internal Audit Function to determine the frequency and scope of audits, having regard to the nature, size and complexity of the Group's operations;

(c) compliance with internal auditing standards; and

(d) coordination between internal and external auditors.

6.1.1.3 AC members should ensure that they are adequately informed of and understand, the risks and implications of internal audit findings and recommendations. The AC should pay particular attention to internal audit assessments of:-

- compliance with the Group's policies, relevant laws and regulatory requirements;
- effectiveness of internal controls in critical areas of operations (e.g. accounting, underwriting, claims, investment, derivatives and information technology management); and
- Management's responsiveness to and corrective actions taken in respect of, internal audit findings and recommendations.

6.1.1.4 The AC should ensure that all findings and recommendations are resolved effectively and in a timely manner.

6.1.1.5 The AC should note any significant disagreements between the internal auditor and Management irrespective of whether they have been resolved in order to identify any impact that this may have on the audit process or findings.

Audit Committee Report

6.1.2 Resources and staffing

6.1.2.1 The AC should ensure on an on-going basis that the internal audit function has adequate and competent resources, given the size and complexity of the Group's operations. In this respect, the AC should:-

(a) Approve the appointment, remuneration, performance evaluation, transfer, dismissal and redeployment of the Chief Internal Auditor and senior officers of the internal audit function;

(b) Be informed of any resignation of the internal audit staff and reasons therefore and provide resigning staff with an opportunity to submit reasons for their resignations; and

(c) Ensure that the compensation scheme of the internal audit function is consistent with the objectives and demands of the internal audit function.

6.1.2.2 The AC should ensure that internal audit staff receives necessary training to perform audit work. In this respect, there should be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.

6.2 External Auditor

6.2.1 Appointment of external auditor

6.2.1.1 The AC is responsible for the appointment of the external auditor, having particular regard to the external auditor's objectivity, performance and independence.

6.2.1.2 The AC should:-

(a) review and assess various relationships between the external auditor and the Group or any other entity that may impair or appear to impair the external auditors' judgement or independence in respect of the Group. This may include affiliations resulting from the Group's employment of former employees of the external auditor in senior positions within the Group;

(b) review and assess fees paid to the external auditor, considering:-

- the economic importance of the Group (in terms of total fees paid) to the external auditor;
- fees paid for non-audit services as a proportion of total fees; and
- whether an effective, comprehensive and complete audit could be reasonably conducted for the audit fees paid.

The fees paid should not impair or appear to impair the external auditor's judgement or independence in respect to the Group;

(c) investigate reasons for any request made by Management to dismiss the external auditor, or any resignation by the external auditor. The results of the investigation should be disclosed to the full Board together with the AC's recommendations on proposed actions to be taken. The decisions of the Board in relation to the recommendations made by the AC should be documented in the Board minutes, with a copy of the relevant minutes extended to JP3 within 2 weeks of the Board's decision;

Audit Committee Report

(d) Review and report to the Board, any letter of resignation from the external auditors of the Group;

(e) Review and report to the Board, whether there is reason (supported by grounds) to believe that the external auditor of the Group is not suitable for re-appointment; and

(f) Recommend the nomination of a person or persons as external auditors.

6.2.2 Provision of non-audit services by the external auditor

6.2.2.1 Any provision of non-audit services by the Group's external auditor should be approved by the AC before the commencement of the service, or whenever there is a significant change in the level of services provided.

6.2.2.2 In considering the provision of non-audit services by the external auditor, the AC should have regard to restrictions on outsourcing to external auditors set out in BNM/RH/GL/003-4: Guidelines on Outsourcing for Insurers.

6.2.2.3 The AC's decisions with respect to the provision of non-audit services should be documented in a statement which outlines whether or not it believes the level of provision of non-audit services by the external auditor is compatible with maintaining auditor independence (together with supporting reasons).

6.2.3 Audit plan, findings and recommendations

6.2.3.1 The AC should review with the external auditor, the:-

(a) audit plan prior to the commencement of the annual audit;

(b) financial statements (before the audited financial statements are presented to the Board), including:-

- whether the auditor's report contained any qualifications which must be properly discussed and acted upon to remove the cause of the auditors' concerns;
- significant changes and adjustment in the presentation of financial statements;
- major changes in accounting policies and principles;
- alternative accounting treatments discussed with Management and the ramifications of the alternatives;
- compliance with relevant laws and accounting standards;
- material fluctuations in the statements;
- significant variations in audit scope;
- significant commitments or contingent liabilities; and
- the validity of going concern assumptions.

(c) audit reports, including obligatory reports to the BNM on matters covered under section 72 of the Financial Services Act 2013 ("Act");

(d) external auditor's evaluation of the Group's system of internal controls;

(e) any significant disagreements between the external auditor and Management irrespective of whether they have been resolved; and

(f) any other findings, issues or reservations faced by the external auditor arising from interim and financial audits.

Audit Committee Report

6.2.3.2 The AC should review and monitor Management's responsiveness to and actions taken on, external audit findings and recommendations. In this regard, the AC should ensure that all findings and recommendations are resolved effectively and in a timely manner.

6.2.3.3 In order to allow external auditors to express concerns, problems and reservations arising from financial audits effectively, the AC should meet at least twice a year with the external auditor without the presence of Management.

6.3 Other responsibilities

6.3.1 The AC should also:-

(a) review:-

- the Chairman's statement and preliminary announcements;
- interim financial reports including quarterly results and year-end financial statements, focusing particularly on:-
  (i) changes in or implementation of major accounting policy changes;
  (ii) significant and unusual events; and
  (iii) compliance with accounting standards and other legal requirements;
- the corporate governance disclosure made pursuant to the requirements of BNM and Bursa Securities and be satisfied that any departure from such requirements and the circumstances justifying such departure are sufficiently explained;
- all representation letters signed by Management and be satisfied that the information provided is complete and appropriate;

(b) review internal control issues identified by auditors and regulatory authorities on Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") and evaluate the adequacy and effectiveness of the internal controls for the Group's AML/CFT measures. At the minimum, the AC should:-

- ensure the roles and responsibilities of the internal auditor on AML/CFT are clearly defined and documented;
- ensure that independent audits are conducted to check and test the effectiveness of the policies, procedures and controls for AML/CFT measures;
- ensure the effectiveness of the internal audit function in assessing and evaluating the AML/CFT controls;
- ensure the AML/CFT measures are in compliance with the Anti-Money Laundering and Anti-Terrorism Financing Act 2001, its regulations and the relevant guidelines on AML/CFT; and
- assess whether current AML/CFT measures which have been put in place are in line with the latest developments and changes of the relevant AML/CFT requirements.

(c) submit a written report on the audit findings on AML/CFT to the Board on a regular basis. The report should be used to highlight inadequacies of any AML/CFT measures and control systems within the Group;

(d) review audit findings from internal and external auditors on risk management related issues, Management responses and ensure actions are taken based on the recommendations;

(e) review findings and reports from the Integrity Committee;

Audit Committee Report

(f) review any related-party transactions and conflicts of interest situations that may arise within the Group including any transaction, procedure or conduct that raises questions of management integrity;

(g) ensure that the insurance subsidiaries comply with Section 66 of the Act which requires an insurer to publish its financial statements from time to time subject to any standards specified by BNM;

(h) ensure that the accounts of the Company and its subsidiaries are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with regular reviews carried out on the adequacy of provisions made;

(i) ensure that supervisory issues raised by the BNM are resolved in a timely manner; and

(j) ensure that the terms and scope of the engagement, the working arrangements with the internal auditors and reporting requirements are clearly established, if external experts are appointed to perform audit of specialised areas.

6.3.2 The AC shall also be responsible for any other functions as may be determined by the Board and reflected in its terms of reference.

7. Reporting to the BNM/Bursa Securities

7.1 The AC shall submit to the BNM, a summary of material concerns/weaknesses in the internal control environment of the respective companies within the Group noted during the year and the corresponding measures taken to address these weaknesses. This should be submitted together with the annual report on the AC and its activities which is submitted to the BNM pursuant to principle 18 of BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers.

7.2 Where the AC is of the view that a matter reported by it to the Board had not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements of Bursa Securities, the AC must promptly report such matter to the Bursa Securities.

AC MEETINGS

The AC meets at least 5 times a year to coincide with the review of the quarterly and annual financial statements prior to its presentation to the Board for approval. Special AC Meeting may be convened as and when required.

There were 5 AC Meetings held during the financial year ended 31 December 2013. The detailed attendance of each member of the AC during the financial year ended 31 December 2013 is as follows:-

Name of AC Members	No. of AC Meetings		Percentage of Attendance
	Held	Attended	
Foo San Kan	5	5	100
Tan Sri Razali Bin Ismail	5	5	100
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5	5	100

Audit Committee Report

SUMMARY OF ACTIVITIES

During the financial year ended 31 December 2013, the following activities were carried out by the AC:-

1. Reviewed the unaudited consolidated quarterly reports of the Group for the financial quarters ended 31 December 2012, 31 March 2013, 30 June 2013 and 30 September 2013 and recommended the unaudited consolidated quarterly reports of the Group for the Board's approval.

2. Reviewed and recommended for the approval of the respective Boards of the insurance subsidiaries, the unaudited interim financial statements of the insurance subsidiaries for the half-year ended 30 June 2013.

3. Noted the Independent Auditors' Reports on the financial information as at 1 January 2011 and 31 December 2011 of the Company and its subsidiaries, pursuant to the first-time adoption of the Malaysian Financial Reporting Standards ("MFRSs") by the Group (inclusive of Investment-Linked Funds Financial Statements), which formed the comparative of the financial statements of the Group and the respective companies for the financial year ended 31 December 2012.

4. Reviewed and recommended for the approval of the respective Boards of the Group, the respective audited financial statements and Directors' Reports for the financial year 2012.

5. Reviewed and recommended for the approval of the Board of the life insurance subsidiary, the audited financial statements for investment-linked funds and the investment-linked performance reports to fund holders for the financial year 2012.

6. Noted the composite risk rating assigned by BNM in respect of BNM's 2012 supervisory review conducted by BNM on the insurance subsidiaries and deliberated the updates on the progress of the action plans in respect of the 2011 and 2012 supervisory reviews by BNM on the insurance subsidiaries.

7. Reviewed the letter issued by BNM to the life insurance subsidiary in respect of the market conduct review on Selling Practices, Agency Management and Personal Data Protection conducted by BNM on the life insurance subsidiary and noted the Management's responses and subsequent updates in respect thereto.

8. Reviewed the letter issued by BNM to the general insurance subsidiary in respect of the BNM's market conduct surveillance on POS Malaysia Berhad and the Management's responses and action plans in relation thereto submitted to BNM.

9. Noted the letter issued by BNM to the life insurance subsidiary in respect of its Marketing Brochures for HSBC's UniversalLegacy and the Management's responses submitted to BNM in respect thereto.

10. Reviewed and recommended for the approval of the respective Boards of the Group, the respective KPMG's supplemental engagement letters for professional services in connection with the adoption of MFRSs.

11. Reviewed and recommended for the approval of the respective Boards of the Group, the audit fees for the financial year 2013.

12. Prepared and submitted to BNM, the annual AC Reports in respect of the internal control environments of the insurance subsidiaries for the financial year 2012.

13. Reviewed and recommended for the Board's approval, the Statement on Risk Management and Internal Control of AMB Group for the financial year 2012.

Audit Committee Report

14. Reviewed the annual audit results of the Group and the Management Letters issued by the External Auditors in respect of the annual audit of the insurance subsidiaries for the financial year 2012 and recommended for the approval of the respective Boards of the insurance subsidiaries, the respective Management's responses in respect thereto.

15. Reviewed and recommended for the approval of the respective Boards of the Group, the respective Management Representation Letters to the External Auditors in respect of the annual audits for the financial year 2012.

16. Reviewed the audit plan of the External Auditors for the Group for the financial year 2013.

17. Reviewed and recommended for the approval of the respective Boards of the Group, the re-appointment of the External Auditors for the financial year 2013 and the re-appointment of the External Auditors to review the Statement on Risk Management and Internal Control of the Company for the financial year 2013.

18. Reviewed and recommended for the approval of the respective Boards of the Group, the engagement letters for KPMG's re-appointment as External Auditors for the financial year 2013 and the engagement letter for KPMG to review the Statement on Risk Management and Internal Control of the Company for the financial year 2013.

19. Reviewed and recommended for the approval of the Board, the revised 2012 KPMG's engagement letter on the review of the Statement on Risk Management and Internal Control.

20. Reviewed and recommended for the approval of the Board of the life insurance subsidiary, the engagement of KPMG AG to conduct Market Consistent Embedded Value Review for the life insurance subsidiary.

21. Held two private discussions with the External Auditors.

22. Reviewed and recommended for the approval of the respective Boards of the insurance subsidiaries, the Audited Reporting Forms and Actuarial Report in relation to Risk-Based Capital Framework for the financial year 2012.

23. Reviewed and recommended for the approval of the Board, the Chairman's Statement, AC Report and the Statement on Corporate Governance for inclusion in the Annual Report of the Company for the financial year 2012.

24. Reviewed the various Internal Audit Reports of the insurance subsidiaries and the Company.

25. Discussed the progress reports on various outstanding audit findings of the insurance subsidiaries and the Company.

26. Reviewed and ratified the changes made to the Internal Audit Plan for 2015-2017 of the insurance subsidiaries and the Company.

27. Reviewed the progress reports of the Internal Audit Plan 2012 and approved the respective 5-year (2014 – 2018) Internal Audit Plans for the insurance subsidiaries and the Company.

28. Reviewed and recommended for the approval of the respective Boards of the Group, the proposed changes to the Internal Audit Charter.

29. Reviewed the Allianz SE Group Audit Report on the internal audit function ("Quality Review Report") of the insurance subsidiaries and the Company and the Management's response in respect thereto.

30. Discussed the status of the action plan of the Quality Review Report of the insurance subsidiaries and the Company.

Audit Committee Report

31. Reviewed the result of the transversal audit on Sales Agents Fraud, Licensing and Suitability of Bancassurance and Brokers Channels executed by the local internal audit team with oversight and quality assurance from Allianz SE Group Audit.

32. Noted the annual declaration of independence for the internal audit activities carried out by Internal Audit Department for the years 2012 and 2013.

33. Evaluated the performance of the Chief Internal Auditor.

34. Reviewed the results of the self assessment review of the Internal Audit Department in 2013.

35. Reviewed the resources, staffing and succession planning of the Internal Audit Department.

36. Held two private discussions with the Chief Internal Auditor.

37. Reviewed and recommended for the approval of the Board of the Company, the setting-up of the Integrity Committee and its Terms of Reference.

38. Discussed the findings and recommendations by the Anti-Fraud Committee/Integrity Committee on the reported fraud cases and new fraud cases discovered by the insurance subsidiaries and reviewed mitigating measures undertaken by the respective Management of the insurance subsidiaries.

39. Reviewed the results of the 2012 Corruption and Fraud Risk Assessment of the insurance subsidiaries and the Company.

40. Reviewed the new and updates of reported whistleblowing communications of the Group.

41. Reviewed and recommended for the approval of the respective Boards of the Group, the revised Anti-Fraud Policy.

42. Reviewed and recommended for the approval of the respective Boards of the Group, the revised Whistleblowing Policies and Procedures.

43. Reviewed and recommended for the approval of the respective Boards of the Group, the new and existing (including any revision proposed) related party transactions ("RPTs") including recurrent related party transactions ("RRPTs") and announcements to Bursa Securities in relation to the renewal of the shareholders' mandate for RRPTs.

44. Reviewed and recommended for the approval of the Boards of the general insurance subsidiary and the Company, the disclosure of the outstanding amount due from the related parties in relation to RRPTs for inclusion in the circular to shareholders on shareholders' mandate.

45. Reviewed and recommended for the Board's approval, the announcement on the deviation between the actual amount transacted and the estimated amount disclosed in the circular to shareholders for the renewal of shareholders' mandate for RRPTs entered into by the Group.

46. Reviewed the review procedures for RRPTs.

47. Approved the AC Statement for inclusion in the circular to shareholders for the proposed renewal of shareholders' mandate for RRPTs.

48. Reviewed and recommended for the ratification by the respective Boards of the insurance subsidiaries, the RPTs entered into by the insurance subsidiaries for the period from 1 January 2012 to 31 December 2012.

Audit Committee Report

49. Reviewed and recommended for ratification by the respective Boards of the insurance subsidiaries, the RPTs (excluded those RPTs fall within the shareholders' mandate) entered into by the insurance subsidiaries for the period from 1 January 2013 to 30 June 2013.

50. Reviewed and recommended for the endorsement of the Board of the life insurance subsidiary, the life insurance subsidiary's compliance status report on Guidelines issued by the Life Insurance Association of Malaysia for 2012.

51. Reviewed the AML/CFT Risk Assessment Report of the life insurance subsidiary and recommended for the approval of the Board of the life insurance subsidiary, the AML/CFT Risk Assessment proposal in respect of changes to the AML internal triggers threshold and criteria.

52. Reviewed and recommended for the approval of the Board of the life insurance subsidiary, the Sales Compliance Disciplinary Policy.

53. Noted the sales compliance initiatives implemented by the life insurance subsidiary for the period from June to July 2013.

54. Discussed the internally generated suspicious transaction reports ("STRs") of the life insurance subsidiary escalated to the Compliance Department for the period from April to September 2013 and the corresponding STRs submitted to BNM by the life insurance subsidiary.

55. Reviewed and recommended for the approval of the respective Boards of the insurance subsidiaries and the Company, the revised AMB Group's Internal Investigation Protocol.

56. Reviewed and recommended for the approval of the respective Boards of the insurance subsidiaries, the impairment of senior bonds under high credit risk.

57. Noted the gift registers updates of the insurance subsidiaries and the Company.

INTERNAL AUDIT FUNCTION

The primary objective of the Internal Audit Department is to assist the Management, AC and the Boards of the Group in the effective discharge of their responsibilities. This is done through the independent assessment and appraisal of the internal controls and the evaluation of the effectiveness of risk management system and corporate governance process of the Group to ensure that organisational and management controls are adequate and effective, in line with the Group's goals. It includes promoting and recommending cost effective controls for safeguarding of assets of the Group and minimising the opportunities for error and fraud.

During the financial year ended 31 December 2013, the Internal Audit Department carried out its duties in accordance with its Audit Charter. All internal audit reports which had incorporated the Management's responses and action plans were tabled for discussion at the AC Meetings.

The Internal Audit Department also established a follow-up audit review to monitor and ensure that audit recommendations have been effectively implemented. The progress reports on remedial measures taken by the Management of the respective companies on audit observations are tabled at the AC Meetings for the AC's review.

The total cost incurred for the internal audit function of the Group for the financial year 2013 amounted to RM3.0 million.

Statement on Corporate Governance

The Board of Directors is committed to ensuring that the highest standards of corporate governance are practised throughout Allianz Malaysia Berhad ("Company") and its subsidiaries (collectively referred to as "Group") as a fundamental obligation of discharging their duties and responsibilities to deliver long-term sustainable shareholder value and protect the interests of the Group's shareholders and all other stakeholders.

Given that the Company is a public company listed on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and its insurance subsidiaries are licensed under the Financial Services Act 2013, the Group's corporate governance practices are formulated based on the prescriptive requirements of the Prudential Framework of Corporate Governance for Insurers ("CG Framework") issued by Bank Negara Malaysia ("BNM"), the requirements of the Main Market Listing Requirements ("Listing Requirements") and the principles and recommendations of the Malaysian Code on Corporate Governance 2012 ("Code").

The Board of Directors' commitment to high standards of corporate governance was recognised in 2013. The Company was awarded the Top Overall Corporate Governance Award under the Mid-Cap category in the Malaysia-ASEAN Corporate Governance Index 2013 Awards presented by Minority Shareholder Watchdog Group.

The Board of Directors is pleased to set out below the manner by which the Group has applied the principles of good governance and the extent to which it has complied with the recommendations and/or best practices prescribed under the CG Framework, the Listing Requirements and the Code, where applicable:-

1. BOARD OF DIRECTORS

Duties and Responsibilities

The Board observed and assumed the duties and responsibilities as prescribed by BNM and outlined under the Code, among others, include the following:-

- Reviewing and adopting a strategic plan for the Company.
- Overseeing the conduct of business of the Company.
- Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures.
- Overseeing appointment and succession planning of senior management.
- Overseeing the development and implementation of a shareholder communication policy for the Company.
- Reviewing the adequacy and the integrity of the management information and internal controls system of the Company.

Code of Conduct

The Directors observed the Company Directors' Code of Ethics established by the Companies Commission of Malaysia and Allianz SE Group's Code of Conduct for Business Ethics and Compliance, where applicable. The Allianz SE Group's Code of Conduct sets the minimum standards for the conduct of all employees and Directors, which cover the areas among others, fair and regulatory conduct of business, non-discrimination, protect of client data/information, insider trading, potential conflicts of interest, complaints management, financial reporting, no corruption or bribery, acceptance and granting of gifts and other benefits, prevention of money laundering and financing of terrorism, ethical conduct of business and whistleblowing.

Conflicts of Interest

In ensuring that the decision making process is transparent and to the best interest of the Company, all Directors and staff including the Chief Executive Officer are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Company, any circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

A Director who has a direct or deemed interest in a subject matter presented at the Board/Board Committees Meeting shall abstain from deliberation and voting on the said subject matter.

Statement on Corporate Governance

Insider trading

The Directors and key management personnel of the Group are prohibited from trading in securities of the Company based on price sensitive information and knowledge, which have not been announced publicly.

Notices in relation to closed period for trading in securities of the Company are issued by the Company Secretary to the Directors, senior management and the personnel who are deemed to be privy to any price sensitive information and knowledge in advance of whenever the close period is applicable, specifying the timeframe for prohibition of dealing in securities of the Company.

Board Composition and Balance

The Board comprises 2 Executive Directors and a strong presence of 6 Non-Executive Directors of whom 4 of them are Independent Directors. The present composition of the Board is in compliance with Chapter 15.02 of the Listing Requirements.

Size and composition of the Board are appropriate and well balanced to cater for the interest of the majority and minority shareholders as well as the business of the Company. Membership of the Board is drawn from various fields with a balance of skills and experiences appropriate to the business of the Group. All Directors are persons of high caliber and integrity and possessed the skills, knowledge and experience in their respective fields and hence enable the Board to discharge its responsibilities in an effective and competent manner.

The profiles of the Board of Directors are set out on pages 28 to 35 of this Annual Report.

The Nominating Committee performs an annual review of the composition of the Board in terms of the appropriate size and skills, balance between Executive, Non-Executive and Independent Directors and mix of skills and other core competencies required ("Composition Mix") and report to the Board of its observation on the composition mix.

The Nominating Committee having reviewed the Composition Mix of the Board in March 2014, opined that the existing Board of the Company is made up of Directors of high caliber and integrity with diverse backgrounds. They possessed the qualification, skills, knowledge and expertise in their respective fields that are appropriate to the business of the Group and therefore the Board has a good Composition Mix.

The Board views the time commitment of Directors and their attendance at Board Meetings seriously. In line with the requirements of the Code, Directors are require to submit their proposed new appointment in other listed company to the Board for prior approval before accepting the new appointment.

All Directors complied with the requirements on restriction of directorships imposed by Bursa Securities and BNM.

All Directors also fulfilled the criteria of "a fit and proper person" for their appointment as Directors as prescribed under the Financial Services Act 2013 and the BNM's Guidelines on Fit and Proper for Key Responsible Persons. In addition, the Group has put in place a Fit and Proper Policy and Procedures for Key Responsible Persons to assess the fitness and propriety of the Directors and key responsible persons.

The Group recognises the important of a diverse workforce and support diversity by recruiting according to skills, knowledge, experience, talents and ability rather than based on gender, race and ethnicity. The Boards of the Company and its insurance subsidiaries had on 23 November 2012 appointed Y. Bhg. Tan Sri Datuk (Dr.) Rafiah Binti Salim as the Group's first woman Independent Non-Executive Director.

The Board will continue evaluating suitable woman candidate for appointment to the Board at the appropriate time. The appointment of new Board member will not be guided solely by gender but rather the skills set, experience and knowledge of the candidate.

Statement on Corporate Governance

Independent Non-Executive Directors made up of half of the Board members. All of them complied with the requirements of Independent Director as prescribed by BNM and Bursa Securities. By virtue of their roles and responsibilities as prescribed by BNM and Bursa Securities, they are in effect, representing the interest of the minority shareholders of the Company. The Independent Non-Executive Directors play a significant role in bringing impartiality and scrutiny to Board deliberations and decision-making, so that no single party can dominate such decision-making in the Company.

The Board is chaired by an Independent Non-Executive Director who does not represent the interest of the controlling shareholder. The Chairman and the Independent Non-Executive Directors do not engage in the day-to-day management of the Company or participate in any business dealings with the Group, do not have any equity interest in the Company or its related corporation and do not have any relationship with the substantial shareholders or Directors, that could materially interfere their exercise of independent judgement.

The Independent Non-Executive Directors engage proactively with the Management, the Risk Management, Compliance and Human Resource functions and with both the external and internal auditors via their respective roles as the Chairman or members of the Board Committees, to ensure that concerns and issues relevant to the management and oversight of the business and operations of the Company are properly addressed.

The Executive Directors and the Non-Independent Non-Executive Directors are nominees of the Company's Holding Company. The Executive Directors representing the Management of the Company whilst the Non-Independent Non-Executive Directors are either the Management of the subsidiaries or representative from the Regional Office of the Holding Company. The Executive Directors provide business insights to the Board and formulate business strategies and plan and accountable for business performance of the Group whilst the Non-Independent Non-Executive Directors provide business guidance to the Management and contributing positively to the Board through their strong technical knowledge, exposure in various markets and sharing of knowledge and best practices.

There is a clear division of roles and responsibilities between the Chairman and the Executive Director cum Chief Executive Officer of the Company to ensure a balance of responsibilities, authority and accountability for an effective Board.

The Chairman is responsible for ensuring Board effectiveness and conduct. He encourages a healthy debate on matters discussed at the meetings and leading the Board to resolve issues in a harmonious and effective manner without compromising the integrity of the Board to the stakeholders.

The Chairman also responsible for ensuring good working relationships are maintained between Directors as well as with the Management of the Company and provides the necessary support and advice. He also takes lead on succession planning of Directors. The Chairman also encourages feedbacks from the stakeholders, he can be reached via his email address razali.ismail@allianz.com.my.

The Chief Executive Officer assumed the duties and responsibilities as prescribed by BNM, which include managing the day-to-day operations of the Company, organisational effectiveness and the implementation of Board policies, decisions and strategy.

Tenure of Independent Directors

The Board had on 24 November 2010, capped the maximum tenure of services for Independent Directors in the Group at 12 years. The Board is mindful on the recommendation of the Code which states that the tenure of an Independent Director should not exceed a cumulative term of 9 years. The Board has accordingly revised the tenure of services for Independent Directors in the Group to a maximum of 9 years in order to align with the Code.

Statement on Corporate Governance

An Independent Non-Executive Director who has served the Board for a consecutive/cumulative term of more than 9 years can only be retained as an Independent Non-Executive Director of the Company subject to the shareholders' approval. The Company should seek shareholders' approval at the nearest annual general meeting before the Independent Non-Executive Director serves for a consecutive/cumulative term of 9 years. Shareholders' approval should be sought annually if the Company wishes to retain the Independent Non-Executive Director who has served for more than 9 years.

Independent Non-Executive Directors are subject to independence assessment by the Nominating Committee and the Board. An evaluation process and evaluation criteria was put in place to assess the independence of the Independent Non-Executive Directors on an annual basis, upon admission and when any new interest or relationship develops. Under the evaluation process, each Independent Non-Executive Director will perform a self review on his/her independence by completing a declaration form with questions drawn from the requirements imposed by the various authorities. The Company Secretary will collate the responses from the Independent Non-Executive Directors and submit to the Nominating Committee for evaluation. The Nominating Committee will evaluate the independence of the Independent Non-Executive Directors based on the evaluation criteria approved by the Board and submit its findings to the Board for deliberation. The Independent Non-Executive Directors who are also the Nominating Committee members will excuse from the meeting during discussion of his/her independent status.

The annual independence assessment on Independent Non-Executive Directors for year 2014 was performed by the Nominating Committee in February 2014 and the Nominating Committee was satisfied that all the Independent Non-Executive Directors of the Company fulfilled the criteria under the definition of Independent Directors as prescribed by the authorities and that they have demonstrated independent and objective judgment in Board/Board Committee deliberations and acting in the best interest of the Group as well as safeguarding the interests of minority shareholders and stakeholders. The Nominating Committee was of the view that all Independent Non-Executive Directors of the Company remain independence and shall maintain their Independent Non-Executive Directors status in the Company. The Board having reviewed the observations from the Nominating Committee in respect of each Nominating Committee member, concurred with the observations of the Nominating Committee. In deliberating on the subject matter, the Independent Non-Executive Directors had abstained from the deliberation and voting on their respective independence assessment.

As at the date of this Statement, none of the Independent Non-Executive Directors of the Company has served for a consecutive/ cumulative term of 9 years. However, Mr. Foo San Kan, an Independent Non-Executive Director of the Company, will attain a consecutive/cumulative term of 9 years on 24 November 2014.

The Nominating Committee and the Board of the Company have assessed the independence of Mr. Foo San Kan and were of the view that Mr. Foo San Kan remains independence and shall continue to serve as an Independent Non-Executive Director of the Company based on the following justification:-

(a) Mr. Foo San Kan fulfilled all criteria under the definition of Independent Director as prescribed by Bursa Securities and BNM.

(b) His vast experience and expertise, particularly in the fields of accounting and auditing, provide an optimal mix in skill of the Board and are crucial for the Board to discharge its duties effectively and in a competent manner.

(c) Mr. Foo San Kan is a person of high caliber and integrity. In his capacity as an Independent Non-Executive Director, he discharged his duty diligently, taking into consideration the minority shareholders' interests when deliberating on matters which may have impact on their interests.

(d) He has acted in the best interest of the Company since his appointment as an Independent Non-Executive Director, providing independent and objective views to the deliberations and decision making of the Board and Board Committees.

Statement on Corporate Governance

(e) Mr. Foo San Kan fully understands the Company and its subsidiaries' objective and strategies as well as the business operation of the Company and the insurance industry market. He devotes substantial time and attentions to his obligation as an Independent Non-Executive Director of the Company as well as the Chairman and members of the respective Board Committees:-

(i) As a Chairman of the Audit Committee, he encourages healthy debate on matters discussed at the meeting and leading the Audit Committee to resolve issues in a harmonious and effective manner without compromising the integrity of the Audit Committee to the stakeholders. He also provides guidance and support to the finance and governance teams in enhancing the reporting standard and corporate governance standard as well as in addressing issues in relation to fraud and whistleblowing.

(ii) As a member of the Nominating Committee, Remuneration Committee and Risk Management Committee, Mr. Foo San Kan has actively and constructively evaluated matters or proposals tabled at the respective Board Committee meetings, taking into consideration the interest of the minority shareholders or stakeholders concerned, before making recommendation to the respective Boards for consideration.

(f) There is scarcity of qualified accountants with audit experience in the market. It is not easy to find a successor for Mr. Foo San Kan with experience that is comparable to him.

The Board recommends for shareholders' approval, the resolution to be tabled at the 40th Annual General Meeting for Mr. Foo San Kan to continue to serve as an Independent Non-Executive Director of the Company after serving for a term of 9 years.

Mr. Foo San Kan has expressed his willingness to continue to serve as an Independent Non-Executive Director of the Company.

Senior Independent Director

The Board had deliberated on the need of appointing a Senior Independent Director to serve as a point of contact for the stakeholders and concluded that such appointment is not required at this juncture on the reason that the current Board is comprising of a high proportion of Independent Non-Executive Directors. In addition, all Independent Non-Executive Directors (including the Chairman) are having good working relationship and are able to be reached by the stakeholders via the Company Secretary.

Appointment to the Board

The appointments of all Directors were approved by BNM. All appointments of Board members are subject to the evaluation by the Nominating Committee and approved by the Board before the applications are submitted to BNM for approval.

The Group has put in place an evaluation procedure and evaluation criteria for assessing the nominee for directorship. The Nominating Committee reviews the evaluation results of the nominee and submits its recommendation to the Board for consideration.

Re-Election and Re-Appointment of Directors

In accordance with the Articles of Association of the Company, one third of the Directors shall retire by rotation at each Annual General Meeting and that a Director who is appointed during the year shall be retired at the next following Annual General Meeting. The Articles of Association further provide that all Directors shall retire from office at least once in every 3 years in compliance with the Listing Requirements.

In addition, any Director who attains the age of 70 is required to submit himself for re-appointment annually pursuant to section 129(2) of the Companies Act, 1965.

Statement on Corporate Governance

The Nominating Committee reviews and assesses the performance of the Directors who are subject to re-election/re-appointment at the Annual General Meeting based on the criteria as approved by the Board and submits its recommendation to the Board for consideration prior to the proposed re-election/re-appointment being presented for the shareholders' approval.

Directors' Performance Review

The Group has put in place an annual peer performance evaluation procedure to assess the performance of the individual Directors and the effectiveness of the Board. The peer assessment on individual Director covers the areas among others, the Director's compliance with prescriptive requirements imposed by regulators, participation in Board and Board Committees, contribution to interaction, quality of input and understanding of role while the assessment on the Board covers the areas, among others, conformance and compliance, stakeholder relationships and performance management. The results of the annual assessment will be first reviewed by the Nominating Committee and the observations of the Nominating Committee together with the annual assessment results will be submitted to the Board for deliberation.

Directors' Remuneration

The Board has established a remuneration policy for Directors of the Company based on the following criteria:-

- overall performance of the Group;
- level of responsibility; and
- attendance at meetings.

Individual Directors shall abstain from discussion of their own remuneration.

Procedure

The Remuneration Committee recommends to the Board the remuneration to be paid to each Director based on the remuneration policy as approved by the Board. It is, nevertheless the ultimate responsibility of the entire Board to decide the quantum for each Director.

Disclosure

The Independent Non-Executive Directors who are not representing the interest of the major shareholder are paid an annual fee and meeting allowance of RM1,200 per Board or Board Committee meeting by the Company for the financial year ended 31 December 2013. The Executive Directors received only the remuneration paid to them for their respective designated position held in the Company. The Non-Independent Non-Executive Directors do not receive any fee and meeting allowance from the Company.

The Directors' remuneration (including benefits-in-kind) received from the Company for the financial year ended 31 December 2013 are detailed below:-

(a) The aggregate remuneration of Directors, distinguishing between Executive and Non-Executive Directors, according to their respective categories.

Statement on Corporate Governance

Categories of Remuneration	Executive Director RM'000	Non-Executive Director RM'000
Salary and other	328	-
Fees and allowance	-	431
Benefits (including estimated monetary value of benefits-in-kind)	13	-
Contribution to Employees Provident Fund	32	-
Total	373	431

(b) The number of Directors whose total remuneration falls into each successive band of RM50,000.

Band	No. of Executive Director	No. of Non-Executive Director
RM0 - RM50,000	-	2
RM50,001 - RM100,000	-	-
RM100,001 - RM150,000	1	4
RM150,001 - RM200,000	-	-
RM200,001 - RM250,000	-	-
RM250,001 - RM300,000	1	-

Directors' Training

In order to ensure that the Directors are well equipped to discharge their responsibilities, all new Non-Executive Directors are required to attend an orientation programme to familiarise them with the insurance industry and the Group.

Director appointed to the Board is required to complete the Mandatory Accreditation Programme ("MAP") as prescribed under the Listing Requirements within four months from the date of appointment. All Directors have attended and completed the MAP.

The Directors of the Company who are also sitting on the Board of the Company's insurance subsidiaries have also attended the high level Financial Institutions Directors' Education ("FIDE") Programme developed by BNM and Perbadanan Insurans Deposit Malaysia in collaboration with the International Centre for Leadership in Finance ("ICLIF").

In order to keep the Directors abreast with the current developments as well as new statutory and regulatory requirements, the Board has approved the following areas of training for the Directors:-

- Laws and regulations imposed by the relevant authorities and any updates in respect thereto
- Risk Management and compliance controls
- Finance, accounting and insurance related requirements
- Corporate Governance
- Business related subjects of the Group

The Company Secretary facilitates the organisation of internal training programme and Directors' attendance of external training programmes. A complete record of trainings, conferences and seminars attended by the Directors as participants or speakers is maintained by the Company Secretary.

Statement on Corporate Governance

The training programmes, seminars and conferences attended by the Directors during the financial year ended 31 December 2013 are as follows:-

Directors	Programmes/Seminars/Conferences Attended
Tan Sri Razali Bin Ismail	• Briefing Session on BNM's Annual Report 2012/Financial Stability and Payment Systems Report 2012.
	• Life Agency Business.
	• Reserving and solvency requirement under Risk Based Capial ("RBC") Framework of general and life insurance products.
Tan Sri Datuk (Dr.) Rafiah Binti Salim	• Company Directors Advance Programme 2013.
	• Financial Institutions Directors' Education ("FIDE") Program (Module A and B).
	• Anti-Money Laundering and Counter Financing Terrorism.
	• Nominating Committee Program.
	• Lunch and Sharing Session on "Achieving Impact as Women Manager's" (as speaker).
	• Life Agency Business.
	• Reserving and solvency requirement under RBC Framework of general and life insurance products.
Dato' Dr. Thillainathan A/L Ramasamy	• Strategic Visioning Workshop on Private Retirement Schemes and Private Pension Administrator.
	• Risk Refresher Course – Shariah.
	• Briefing Session on BNM's Annual Report 2012/Financial Stability and Payment Systems Report 2012.
	• Financial Services Bill.
	• Asia Catastrophe Pool and Asia Agricultural Pool.
	• Malaysia Economics Association Roundtable Discussion with World Bank Group on China, India and Asia's Growth Challenges.
	• Conference on Private Pension Schemes led by global experts.
	• Citibank's Liquidity Risk Management/Market Risk Management/Retail Banking Risk Management Trainings.
	• Personal Data Protection Act and Competition Act.
	• Khazanah Megatrends Conference Growth with Inclusion on an Age of Paradox.
	• World Capital Market Symposium : Redefining Markets, Sustaining Growth and Resilience.
	• Life Agency Business.
	• University of Malaya Forum Alumni Leadership Series – What Quality of Life? – Living Poor in Malaysia's Urban Areas.
	• Reserving and solvency requirement under RBC Framework of general and life insurance products.
Foo San Kan	• Briefing Session on BNM's Annual Report 2012/Financial Stability and Payment Systems Report 2012.
	• Financial Services Bill.
	• Nominating Committee Program.
	• Life Agency Business.
	• Reserving and solvency requirement under RBC Framework of general and life insurance products.

Statement on Corporate Governance

Directors	Programmes/Seminars/Conferences Attended
Jens Reisch	• Personal Data Protection Act 2010.
	• Allianz Global Assistance Chief Financial Officer Conference.
	• Allianz SE Asia Pacific Regional Office ("AZAP") Chief Executive Officer Conference.
	• Inaugural Roundtable Discussion of the Competence Centre for Corporate Social Responsibility and Sustainable Business Practice (as speaker).
	• Allianz Academy "Planning your Career" (as speaker).
	• Leadership training for Senior Managers (as speaker).
	• Advocacy Session on Corporate Disclosure for Directors.
	• AIESEC-LEAD Conference "Changing the World" (as speaker and panelist).
	• World Bank Talk/Malaysia: Economic Outlook & Harnessing Natural Resources to Sustain Growth.
	• Federal Skilled Trades Program Financial Sector Talent Enrichment Program (as speaker).
	• German Bioenergy Symposium (as speaker).
	• LIMRA-LOMA Asia Distribution Conference (as speaker).
	• Life Agency Business.
	• Reserving and solvency requirement under RBC Framework of general and life insurance products.
Zakri Bin Mohd Khir	• AZAP Chief Executive Officer Conference.
	• Property and Casualty Chief Executive Officer Workshop.
	• Property and Casualty Pricing Workshop.
Ong Eng Chow	• Briefing Session on BNM's Annual Report 2012/Financial Stability and Payment Systems Report 2012.
	• Financial Services Bill.
	• Allianz Finance Conference.
	• Life Agency Business.
	• AZAP Finance Workshop.
	• Reserving and solvency requirement under RBC Framework of general and life insurance products.

The Nominating Committee having reviewed the trainings attended by the Directors during the year 2013 was satisfied with the training programmes/courses attended by the Directors for year 2013.

Board Meetings and Supply of Information

Board Meetings for each year are scheduled in advance prior to the end of the year and circulated to Directors and Senior Management before the beginning of each year. The Board meets regularly at least 5 times in a year. Additional Board Meetings are held as and when required.

Statement on Corporate Governance

A total of 6 Board Meetings were held during the financial year ended 31 December 2013 and the attendance of each Director is as follows:-

Directors	Designation	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Bin Ismail	Chairman Independent Non-Executive Director	6	6
Foo San Kan	Independent Non-Executive Director	6	6
Dato' Dr. Thillainathan A/L Ramasamy	Independent Non-Executive Director	6	6
Tan Sri Datuk (Dr.) Rafiah Binti Salim	Independent Non-Executive Director	6	6
Jens Reisch	Chief Executive Officer/Non-Independent Executive Director	6	5
Zakri Bin Mohd Khir	Non-Independent Non-Executive Director	6	6
Ong Eng Chow	Chief Financial Officer/ Non-Independent Executive Director	6	6
Alexander Cornelius Ioannis Ankel	Non-Independent Non-Executive Director	6	Not Applicable*

Note:-

* Mr. Alexander Cornelius Ioannis Ankel was appointed as a Non-Independent Non-Executive Director of the Company on 17 March 2014.

All Directors have complied with the minimum requirements on attendance at the Board Meetings as stipulated in the Listing Requirements of Bursa Securities (minimum 50% attendance).

The Board Meetings are conducted in accordance with a structure agenda approved by the Chairman. All Directors are given sufficient time to review the meeting papers prior to Board Meetings. Meeting papers are prepared in accordance with a prescribed format aims to provide clear, comprehensive and concise information to the Board to facilitate their deliberation and decision making.

The agenda together with the minutes of Board Meeting and meeting papers are circulated to the Board in advance of each Board Meeting to accord sufficient time for the Directors to review and consider issues to be discussed at the Board Meetings. Urgent matters may be tabled for the Board's deliberation under a supplemental agenda.

Regular matters tabled for the Board's information and deliberation include, financial and business reviews and development, business plan and budget, group strategy, information on business proposition including market share, investment and industry development, corporate proposals or projects, risk management review, stress testing, regulation updates, compliance related matters, Human Resource related matters and other operational efficiency projects. Key matters reserved for Board's approval include, among others, the quarterly financial results, audited financial statements, annual business plan, strategies and budget, declaration of dividend, significant transactions or expenditures, related party transactions, restructuring, corporate proposals, appointment of Director and chairman/member of Board Committees, appointment of Chief Executive Officer and key responsible persons, remuneration for Directors, Chief Executive Officer and key responsible persons. The Board is also being informed of the decision and significant issues deliberated by the Board Committees via the reporting of the Chairman of the respective Board Committees and the minutes of the Board Committees tabled at the Board Meetings.

Statement on Corporate Governance

In between Board Meetings, the Board is also being informed or updated, on important issues and/or major development of matters discussed in the Board Meetings, by the Management and/or the Company Secretary. Briefing may be arranged to discuss on important issues.

All Directors have direct access to the Senior Management and have unrestricted access to all information and documents relevant to the business and affairs of the Group. The Board may invite any employees to be in attendance of Board Meetings to assist it in its deliberations.

The Directors, in furtherance of their duties, may seek independent professional advice at the Company's expense, should the need arises. Professional advisers, consultants, auditors and solicitors appointed by the Company to advise on corporate proposals are invited to the Board Meetings to brief the Board on their advice and opinion as well as to address issues that of concern to the Directors.

Company Secretary

The Company Secretary plays an advisory role to the Board in relation to the Company's constitution, policies and procedures and compliance with the relevant regulatory requirements, guidance and legislations as well as the principle of best corporate governance practices. The Directors are regularly updated by the Company Secretary on the new or changes made to the relevant regulatory requirements, more particularly on areas relating to the duties and responsibilities and disclosure requirements of the Directors.

The Company Secretary also responsible for advising the Directors of their obligations and duties to disclose their interest in securities, prohibition on dealing of securities during the closed period, restriction on disclosure of price sensitive information, disclosure of any conflict of interest and related party transaction as well as disclosure of necessary information as required under the relevant legislations, attends all Board and Board Committee meetings and ensures that all meetings are properly convened and proceedings of the Board and Board Committee meetings and decisions thereof are properly recorded, communicating decisions of the Board and Board Committees to the relevant management for necessary action, follow-up on proposals or matters tabled at the Board or Board Committee meetings, execution of assessment for Directors and the Board, ensuring appointment, re-appointment and resignation of Directors are in accordance with the relevant legislations, handling company share transactions and other duties as prescribed under the relevant legislations.

The Directors have direct access to the advice and services of the Company Secretary. The Company Secretary works closely with the Management to ensure that there are timely and appropriate information flows within and to the Board and Board Committees, and between the Non-Executive Directors and the Management.

2. DELEGATION OF AUTHORITY

The Board is responsible for overseeing the overall affairs of the Company. To ensure effective discharge of its functions and responsibilities, the Board delegate specific powers to the Chief Executive Officer, the senior management and the Board Committees.

Management Authority Limit

The Board's approving authority is delegated to the Management through formal and defined operational authority limits that governs business procedures and decision making process in the Group. The operational authority limits incorporates segregation of duties and check and balance in delegation of authority.

Such authority limits are documented and made available to all staff via the Group's staff e-portal.

Statement on Corporate Governance

Various Management Committees are established by the Management to assist in managing the day-to-day operations and ensure its effectiveness. The Management Committees formulate tactical plans and business strategies, monitor the performance of the Company and ensure that activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

Board Committees

The Board in the course of carrying out its duties, may set up Board Committees delegated with specific authority and operating on the terms of reference as approved by the Board, to assist the Board in the execution of its responsibilities. These Board Committees shall have the authority to examine particular issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

The minutes of the Board Committees are tabled at the Board Meeting for information. The Chairmen of the respective Board Committees also report to the Board on key deliberated issues of the Board Committees at each Board Meeting.

Board Committees' Performance Review

The Group has put in place an annual performance evaluation procedure and criteria to assess the performance of the Board Committees. On an annual basis, the Nominating Committee will complete the evaluation form on the Board Committees and the observations of the Nominating Committee together with the annual assessment results will be submitted to the Board for deliberation.

In March 2014, the Nominating Committee reviewed the composition of the Board Committees and was a view that the composition of the various Board Committee were in order. The Nominating Committee also carried out performance assessments on the Board Committees and was satisfied with the performance of the various Board Committees. The findings of the Nominating Committee were submitted to the Board and the Board agreed with the assessment of the Nominating Committee.

The Board set up the below mentioned Board Committees to assist the Board on specific areas of responsibilities. The insurance subsidiaries have formally used the services of the Board Committees of the Company since 1 January 2008.

Audit Committee

The memberships and terms of reference of the Audit Committee are determined in accordance with the BNM's guidelines, Listing Requirements and the Code. The composition and the terms of reference of the Audit Committee are detailed in the Audit Committee Report set out on pages 80 to 91 of this Annual Report.

Risk Management Committee

The members of the Risk Management Committee are as follows:-

Members	Designation
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson)	Independent Non-Executive Director
Foo San Kan (Member)	Independent Non-Executive Director
Dato' Dr. Thillainathan A/L Ramasamy (Member)	Independent Non-Executive Director

Statement on Corporate Governance

There were 4 Risk Management Committee Meetings held during the financial year ended 31 December 2013. The attendance of each member of the Risk Management Committee is as follows:-

Members	No. of Risk Management Committee Meetings Held	No. of Risk Management Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4	4
Foo San Kan	4	4
Dato' Dr. Thillainathan A/L Ramasamy	4	4

The Risk Management Committee is responsible for driving the risk management framework of the Group and to report to the Boards of the respective companies within the Group on its recommendations and/or decisions. The responsibilities of the Risk Management Committee are stated below:-

(a) to address strategic and corporate level risks and recommend to the respective Boards of the Group the strategies to manage these risks and ensure its implementation;

(b) to review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

(c) to review and recommend risk management strategies, policies and risk parameters/tolerance levels, Internal Capital Adequacy Assessment Process result for the approval of the respective Boards of the Group and to ensure any changes and concerns are communicated to senior management effectively;

(d) to ensure the risk control functions have adequate resources, authority, infrastructure, systems and independence to enable an effective risk management;

(e) to review the Key Risks Profile and risks raised by business units and monitor the progress of action plans implemented;

(f) to review and recommend for the approval of the respective Boards of the Group, the contingency planning, including its effectiveness testing covering policies, processes and resources in place to address potential crisis, unusual circumstances and stress situations;

(g) to review periodic reports on risk exposure, risk portfolio composition and risk management activities;

(h) to report to the respective Boards of the Group, the risk management status on a regular basis; and

(i) to approve the risk methodology to facilitate risk assessment.

Nominating Committee

The members of the Nominating Committee are as follows:-

Members	Designation
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson)	Independent Non-Executive Director
Tan Sri Razali Bin Ismail (Member)	Independent Non-Executive Director
Foo San Kan (Member)	Independent Non-Executive Director
Dato' Dr. Thillainathan A/L Ramasamy (Member)	Independent Non-Executive Director
Zakri Bin Mohd Khir (Member)	Non-Independent Non-Executive Director

Statement on Corporate Governance

There were 6 Nominating Committee Meetings held during the financial year ended 31 December 2013. The attendance of each members of the Nominating Committee is as follows:-

Members	No. of Nominating Committee Meetings Held	No. of Nominating Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	6	6
Tan Sri Razali Bin Ismail	6	6
Foo San Kan	6	6
Dato' Dr. Thillainathan A/L Ramasamy	6	6
Zakri Bin Mohd Khir	6	6

The primary objective of the Nominating Committee is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officer and key responsible persons of the Group and to assess the effectiveness of individual Director, the respective Boards (including various committees of the Board), Chief Executive Officer and key responsible persons of the Group on an on-going basis.

The responsibilities of the Nominating Committee are stated below:-

(a) establishing minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between Executive Directors, Non-Executive Directors and Independent Directors as well as diversity (including gender diversity), and other core competencies required, through annual reviews;

(b) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for reappointment, before an application for approval is submitted to BNM. The Nominating Committee in making its recommendation on candidates for directorship or re-appointment, should consider the candidates':-

   (i) skill, knowledge, competencies, expertise and experience;
   (ii) professionalism;
   (iii) integrity;
   (iv) commitment, contribution and performance; and
   (v) in the case of candidate for the position of Independent Non-Executive Directors, the Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors;

(c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director including the Independent Directors to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer. All assessments and evaluations carried out by the Nominating Committee in the discharge of all its functions should be properly documented;

(d) developing the criteria to assess the independence of its Independent Directors;

(e) overseeing the appointment, management succession planning and performance evaluation of Directors/Chief Executive Officer and key responsible persons, and recommending to the Board on removal of a Director/Chief Executive Officer and key responsible persons if they are ineffective, errant or negligent in discharging their responsibilities; and

(f) ensuring that all Directors undergo appropriate induction programmes and receive continuous training.

Statement on Corporate Governance

During the financial year ended 31 December 2013, the following activities were carried out by the Nominating Committee:-

(a) Reviewed and recommended for the Board's approval, the proposed composition of the Board Committees.
(b) Reviewed and recommended for the adoption of the respective Boards of the Group, the fit and proper assessments for the key responsible persons of the Group.
(c) Reviewed the results of the performance evaluation of individual Directors and the respective Boards of the Group for year 2012.
(d) Reviewed and recommended for the approval of the respective Boards of the Group, the proposed re-appointment/re-election of Directors who are subject to re-appointment/re-election at the 2013 Annual General Meeting.
(e) Reviewed and recommended for the approval of the respective Boards of the insurance subsidiaries, the proposed re-appointment of Y. Bhg. Tan Sri Razali Ismail as an Independent Non-Executive Director upon the expiry of his terms of appointment as approved by BNM.
(f) Reviewed the list of training programmes/courses (either as participant or as a speaker/moderator) attended by the Directors of the Group for year 2012.
(g) Reviewed and recommended for the approval of the Board of the life insurance subsidiary, the proposed re-appointment of Mr. Jens Reisch as the Chief Executive Officer/Executive Director upon the expiry of his terms of appointment as approved by BNM.
(h) Reviewed and recommended for the approval of the Board of the general insurance subsidiary, the proposed re-appointment of Mr. Jens Reisch as the Non-Independent Non-Executive Director upon the expiry of his terms of appointment as approved by BNM.
(i) Reviewed the composition mix of the respective Boards of the Group and the composition of the Board Committees of the Company.
(j) Reviewed the results of the performance evaluation of the key responsible persons of the Group for year 2012.
(k) Reviewed and recommended for the approval of the respective Boards of the Group, the proposed independent evaluation process for Independent Directors, the Declaration of Independent Form and independence assessment criteria.
(l) Reviewed and recommended for the approval of the respective Boards of the Group, the proposed change of maximum tenure of Independent Directors.
(m) Reviewed the proposed appointment of senior Independent Director and submit its findings for the consideration of the respective Boards of the Group.
(n) Reviewed and recommended for the Board's approval, the proposed amendments to the terms of reference of the Nominating Committee.
(o) Reviewed and recommended for the approval of the respective Boards of the Group, the proposed Board Committees evaluation process.
(p) Reviewed and recommended for the Board's approval, the proposed promotion for key responsible persons.
(q) Reviewed the independence assessment of Independent Directors.
(r) Reviewed and recommended for the approval of the respective Boards of the insurance subsidiaries, the proposed re-appointment of Mr. Foo San Kan as an Independent Non-Executive Director upon the expiry of his terms of appointment as approved by BNM.
(s) Reviewed and recommended for the approval of the respective Boards of the Group, the revised Fit and Proper Policy and Procedures for Key Responsible Persons.
(t) Reviewed and recommended for the approval of the Board of the general insurance subsidiary, the proposed re-appointment of Mr. Zakri Bin Mohd Khir as the Chief Executive Officer upon the expiry of his terms of appointment as approved by BNM.
(u) Reviewed and recommended for the approval of the Board of the life insurance subsidiary, the proposed re-appointment of Appointed Actuary for the financial year 2014.
(v) Reviewed and recommended for the approval of the Board of the general insurance subsidiary, the proposed re-appointment of general insurance signing actuary for the financial year 2014.
(w) Reviewed and recommended for the Board's approval, the proposed appointment of Mr. Alexander Cornelius Ioannis Ankel as a Non-Independent Non-Executive Director of the Company.

Statement on Corporate Governance

Remuneration Committee

The members of the Remuneration Committee are as follows:-

Members	Designation
Tan Sri Datuk (Dr.) Rafiah Binti Salim (Chairperson)	Independent Non-Executive Director
Tan Sri Razali Bin Ismail (Member)	Independent Non-Executive Director
Foo San Kan (Member)	Independent Non-Executive Director

There were 3 Remuneration Committee Meetings held during the financial year ended 31 December 2013. The attendance of each member of the Remuneration Committee is as follows:-

Members	No. of Remuneration Committee Meetings Held	No. of Remuneration Committee Meetings Attended
Tan Sri Datuk (Dr.) Rafiah Binti Salim	3	3
Tan Sri Razali Bin Ismail	3	2
Foo San Kan	3	3

The primary objective of the Remuneration Committee is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officer and key responsible persons of the Group and ensuring that their compensation is competitive and consistent with the culture, objective and strategy of the Group.

The responsibilities of the Remuneration Committee are stated below:-

(a) recommending a framework of remuneration for Directors, Chief Executive Officer and key responsible persons. The remuneration policy should:-

- (i) be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
- (ii) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and key responsible persons;
- (iii) be sufficient to attract and retain Directors, Chief Executive Officer and key responsible persons of calibre needed to manage the company successfully; and
- (iv) be balanced against the need to ensure that the funds of the insurer are not used to subsidise excessive remuneration packages;

(b) recommending specific remuneration packages for Directors, Chief Executive Officer and key responsible persons. The remuneration packages should:-

- (i) be based on an objective consideration and approved by the full Board;
- (ii) take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Directors, Chief Executive Officer or key responsible persons concerned;
- (iii) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
- (iv) be competitive and is consistent with the culture, objective and strategy of the Group.

Statement on Corporate Governance

Investment Committee

The members of the Investment Committee are as follows:-

Members	Designation
Dato' Dr. Thillainathan A/L Ramasamy (Chairman)	Independent Non-Executive Director
Jens Reisch (Member)	Non-Independent Executive Director
Zakri Bin Mohd Khir (Member)	Non-Independent Non-Executive Director
Ong Eng Chow (Member)	Non-Independent Executive Director

There were 4 Investment Committee Meetings held during the financial year ended 31 December 2013. The attendance of each member of the Investment Committee is as follows:-

Members	No. of Investment Committee Meetings Held	No. of Investment Committee Meetings Attended
Dato' Dr. Thillainathan A/L Ramasamy	4	4
Jens Reisch	4	4
Zakri Bin Mohd Khir	4	4
Ong Eng Chow	4	4

The Investment Committee is responsible for setting of investment policies, objectives, guidelines and controls for the Investment Department, which in turn is responsible for managing the investment functions of the Group.

Board Manual

The Board Manual which encompasses, among others, the Board's role, duties, responsibilities, powers, code of conduct, division of responsibilities and powers between the Board and Management and between the Chairman and the Chief Executive Officer, the terms of reference of the Board Committees, the performance evaluation process for the Directors and Board Committees, the processes and procedures for convening Board meetings, to serve as a guide or key reference points for the Directors and the stakeholders is being fine tuning to incorporate various requirements stipulated under the Financial Services Act 2013, new guidelines issued by BNM and the Corporate Governance Guide (2nd Edition) issued by Bursa Securities.

3. ACCOUNTABILITY AND AUDIT

Strategies Promoting Sustainability

The Board strongly believed that sustainable development shall mean combining long-term economic value creation with a holistic approach to environmental stewardship, social responsibility and corporate governance.

The Group takes a proactive approach to sustainability through incorporation of sustainable practices into its products and services, engaging with society via its corporate responsibility initiatives, consistent review and improve its governance structures as well as taking actions to reduce its environmental footprint.

The progress of the Group's activities and initiatives for the year 2013 are detailed in the Sustainability Report which forms part of this Annual Report.

Statement on Corporate Governance

Financial Reporting

In presenting the annual financial statements, quarterly reports and the annual report to the shareholders, the Board takes appropriate steps to present a clear and balanced assessment of the Group's financial position, performance and prospects. This also applies to other public announcements released by the Company in accordance with the Listing Requirements as well as reports submitted to regulators.

Prior to presenting the financial statements of the Group to the Board for approval, the financial statements will be reviewed by the Audit Committee. The Audit Committee assists the Board in reviewing the information to be disclosed in the financial statements to ensure that the information disclosed is accurate, adequate and in compliance with the various disclosure requirements imposed by the relevant authorities and applicable financial reporting standards. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to adoption of the financial statements of the Group.

The Statement of Responsibility by Directors in respect of the preparation of annual audited financial statements of the Company is presented on page113 of this Annual Report.

Related Party Transactions

The Group complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL 018-6) and the Listing Requirements in respect of its related party undertakings. Necessary disclosures were made to the Board and where required, prior approval of the Board and/or shareholders for the transactions had also been obtained.

In line with Part E, Paragraph 10.09 of the Listing Requirements on recurrent related party transactions of a revenue or trading nature with related parties ("Recurrent Transactions"), the Company had obtained the shareholders' mandate for the Group to enter into Recurrent Transactions ("Shareholders' Mandate"). The Shareholders' Mandate will be renewed on a yearly basis at the Annual General Meeting of the Company.

The Group has also established a review procedure for related party transactions including Recurrent Transactions ("RPT Review Procedure") to ensure that they are:-

(i) undertaken on arm's length basis;
(ii) consistent with the Group's usual business practices and policies;
(iii) the transaction prices and terms are not more favourable to the related parties than those extended to third parties/public; and
(iv) are not to the detriment of the minority shareholders.

Under the RPT Review Procedure, a due diligence working group was formed to review the related party transactions/Recurrent Transactions prior to the same are submitted to the Audit Committee for consideration. The Audit Committee will subsequently review the related party transactions/Recurrent Transactions and submit its recommendation to the Board for consideration. Director who has a direct or deemed interest in the related party transactions/Recurrent Transactions presented at the Audit Committee/Board meeting will abstain from deliberation and voting on the said related party transactions/Recurrent Transactions.

The Audit Committee also reviews the RPT Review Procedure on an annual basis to ensure that the procedures and processes are sufficient and adequate to monitor, track and identify related party transactions including Recurrent Transactions in a timely and orderly manner.

Statement on Corporate Governance

External Auditors

The Board and the Audit Committee place great emphasis on the objectivity and independence of the Group's external auditors.

The appointment and re-appointment of the external auditors will be reviewed by the Audit Committee and the recommendation from the Audit Committee will be presented to the Board for consideration prior to the said proposal being presented to the shareholders for approval.

In reviewing the proposed appointment or re-appointment of external auditors, the Finance and Accounts Division will complete the evaluation on the External Auditors and table the result to the Audit Committee for further review. The Audit Committee having reviewed the evaluation form will make its recommendation to the Board for consideration. Areas of assessment include among others, the level of knowledge, capabilities, experience and quality of previous work, level of engagement, ability to perform the audit work within the agreed timeframe, adequacy in audit coverage, effectiveness in planning and conduct of audit, ability to provide constructive observations and independence.

The Audit Committee also reviews the non-audit services rendered by the external auditors. A policy setting out the criteria and approval procedures in dealing with audit and non-audit services, is put in place to ensure that the objectivity and independence of the external auditors are not compromised by providing the non-audit services to the Group.

The terms of engagement of the external auditors for their audit and non-audit services rendered are reviewed by the Audit Committee and approved by the Board.

Through the Audit Committee, the Board has established a formal and appropriate relationship with the external auditors. The Audit Committee meets with the external auditors three times a year to review the audit plan, the fourth quarterly report, the audited financial statements and the audit observations. The Audit Committee also held two private discussions with the external auditors without the presence of the Management, to exchange views and opinions. The external auditors are also invited to attend the Annual General Meeting of the Company to address the concerns of the shareholders in relation to the audited financial statements of the Group.

Details of the role of the Audit Committee in relation to the external auditors are described in the Audit Committee Report presented on pages 80 to 91 of this Annual Report.

The audit fees for the financial year ended 31 December 2013 are detailed below:-

	Group RM'000	**Company RM'000**
Auditors' fees:		
- statutory audits	680	125
- other services – review of Statement on Risk Management and Internal Control	10	10

Risk Management and Internal Control

The Statement on Risk Management and Internal Control, which provides an overview of the state of internal controls within the Group, is presented on pages 114 and 118 of this Annual Report.

Statement on Corporate Governance

Internal Audit Function

The Board has established an internal audit function within the Group, which is led by the Head of Internal Audit who reports directly to the Audit Committee.

Details of the Internal Audit Function of the Group is presented on page 91of this Annual Report.

4. SHAREHOLDERS AND INVESTORS ENGAGEMENT

Communication with Shareholders/Investors

The Board acknowledges the need for shareholders and other stakeholders to be informed of all material information affecting the Group and is committed to maintain transparency and accountability to all of its shareholders and stakeholders.

In maintaining the commitment to effective communication with shareholders and stakeholders, the Company adopts the practice of comprehensive, accurate and timely disclosures of information to its shareholders as well as to the general investing public in accordance with the requirements of the Listing Requirements, to enable them to make informed investment decisions.

The Board is mindful that material information affecting the Group must be announced immediately via Bursa Securities to the shareholders and investing public and that price sensitive information must be handled in a strictly confidential manner within the Group. Internal procedures have been put in place to ensure that material information released to the shareholders and investing public are accurate, comprehensive and not misleading and that price sensitive information are handled properly to avoid any leakage and improper use of such information by the relevant parties. In addition, the Board also stresses on equal dissemination of information to shareholders and stakeholders.

Information in respect of the Group are disseminated through the following avenues:-

(a) Quarterly Report

Information in respect of the Group's financial results, business review, future prospect, corporate exercises and other material information in relation to the development of the Group are disclosed in the Quarterly Report of the Group.

Immediately following the release of the Quarterly Report to Bursa Securities, a press release in respect thereto will be issued by the Group. The Quarterly Report and the press release are subsequently published on the website of the Group.

(b) Annual Report

The Group's Annual Report provides a comprehensive report on, among others, the Group's audited financial statements, review of the operational and financial performance, business development and strategy, industry outlook and future prospects, corporate responsibility activities and sustainability development, risk management and internal control activities and corporate governance development.

Annual Reports are despatched to shareholders in CD ROM format and hard copy will be made available to shareholders upon request. It is also published in the website of the Group upon its issuance to the shareholders and release to Bursa Securities.

(c) Corporate Announcements

Corporate announcements contain material information that may affect the interest of the shareholders and any other announcements as may be required by the Listing Requirements will be released to Bursa Securities on a timely manner. Such announcements are also made available in the website of the Group immediate after released to Bursa Securities.

Statement on Corporate Governance

(d) Investor Relations

The senior management team comprising the Chief Executive Officer and Chief Financial Officer of the Group holds quarterly briefing for fund managers and research analysts on the quarterly performance, business development and progress of the Group. Such briefing is normally conducted on the next working day after the release of the Group's Quarterly Report to Bursa Securities.

The quarterly briefing also serves as a platform of dialogue between the fund managers and research analysts with the senior management of the Group, where the fund managers and research analysts are able to raise questions and seek clarification from the senior management on any issue relating to the Group.

In order to ensure that shareholders and investing public have equal access of the presentation slides for the briefing, the presentation slides are published on the website of the Group immediately after the Group released its Quarterly Report to Bursa Securities.

In addition, the senior management also holds separate meetings with the potential investors and fund managers throughout the year to provide the overview of the operation and business prospects of the Group.

(e) Designated Person to handle Investor Relations

The Corporate Communications Department of the Group addresses enquiries from shareholders, investors and public on all corporate matters relating to the Group.

The personnel to be contacted in relation to investor relations matters is as follows:-

Ms. Joannica Dass
Head of Corporate Communications

Tel : 03-22640780
E-mail : joannica.dass@allianz.com.my

(f) Press Releases

Press releases on corporate developments and initiatives are also issued by the Group to provide the stakeholders with the up-to-date information in respect of the Group.

Media meetings and interviews are also initiated to provide wider publicity and understanding of the Group's business activities and strategies.

(g) Website - www.allianz.com.my

The Group's website at www.allianz.com.my, provides the avenue for the shareholders, investing public and other stakeholders to access all information in relation to the Group, covering the areas of business products, services, corporate responsibility initiatives, announcements released to Bursa Securities, press releases, financial statements of the Company and its insurance subsidiaries and presentation made during the analyst briefings and Annual General Meeting.

In addition, an enquiry tab is also provided in the website to enable the shareholders, stakeholders and general public to make enquiries.

(h) Facebook - www.facebook.com/AllianzMalaysia

The Group's Facebook page is another avenue for the Group to engage with shareholders, stakeholders and general public in an interactive way. Through the Facebook page, latest news of the Group are provided to the shareholders, stakeholders and general public and they are able to provide their complaints, comments, suggestions and feedback to the Group.

Statement on Corporate Governance

General Meetings

The Annual General Meeting is the principal forum to communicate with the shareholders. At the 39th Annual General Meeting, all Directors were present at the 39th Annual General Meeting to engage directly with the shareholders and to address concerns that may be raised by the shareholders.

The notice of Annual General Meeting and the related circular to shareholders are despatched to shareholders at least 21 days prior to the Annual General Meeting in accordance with the Listing Requirements, to provide sufficient time for the shareholders to review the Group's financial and operational performance and to evaluate the resolutions tabled at the Annual General Meeting. Resolutions proposed under special business in the notice of Annual General Meeting are accompanied with a note to explain the purpose and effect of the resolutions and/or make reference to the circular to shareholders, if any.

In line with Recommendation 8.2 of the Code to encourage poll voting, the Company makes the necessary preparation for poll voting for all resolutions at its Annual General Meeting, including appointment of poll administrators and scrutineer.

At the Annual General Meeting of the Company, the Chairman highlights to the shareholders present of their right to demand for a poll, the Chief Executive Officer presents a comprehensive review of the Group's financial performance, business development, corporate responsibilities ("CR") initiatives and other significant matters that required the attention of the shareholders. Shareholders are encouraged to raise questions or seek clarification pertaining to the operations, financial and business related issues and any other related matters to the agenda of the Annual General Meeting. Members of the Board, the senior management and the external auditors are present at the Annual General Meeting to respond to questions raised by the shareholders. Suggestions received from the shareholders during the Annual General Meeting, where applicable, will be evaluated and considered for implementation by the Board.

To enable the shareholders to have a better understanding of the business and the CR initiatives of the Group, products booth and CR booth are set up at the venue of the Annual General Meeting with the Group's operation and CR teams standby to explain and address any question raised by the shareholders.

The Board also shared with the shareholders the questions submitted in advance of the Annual General Meeting by the Minority Shareholder Watchdog Group and the Company's responses in relation thereto.

In line with the requirements of the Listing Requirements, the Board will ensure that moving forward, all resolutions in relation to related party transactions tabled for shareholders' approval shall be decided by poll voting.

STATEMENT OF DIRECTORS' RESPONSIBILITY IN RELATION TO FINANCIAL STATEMENTS

The Board, in preparing the financial statements, has adopted appropriate accounting policies, consistently applied and supported by reasonable and prudent judgment and estimates. All applicable accounting standards have been followed and the financial statements have been prepared on a going concern basis.

The Board is responsible for ensuring that the Company maintains accounting records that disclose reasonable accuracy of the financial position of the Company and the Group.

The Board has overall responsibilities for taking such steps, as are reasonably available to them, to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The statement by Directors pursuant to Section 169(15) of the Companies Act, 1965 in respect of the preparation of the Company's financial statements for the financial year ended 31 December 2013 is presented on page 259 of this Annual Report.

Statement on Risk Management and Internal Control

This Statement on Risk Management and Internal Control ("Statement") is made pursuant to Bursa Malaysia Securities Berhad's Main Market Listing Requirements ("MMLR") that requires the Board to include in its Company Annual Report a statement about the state of its internal control.

This Statement has been prepared in accordance with the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers issued by an industry-led task force in December 2012.

BOARD RESPONSIBILITY

The Board recognises the importance of sound internal controls that cover risk management, financial, operational and compliance controls. The Board is fully committed to ensure that effective risk management and internal control systems are in place within Allianz Malaysia Berhad and its subsidiaries (the "Group") and continuously review the adequacy and integrity of these systems. Such systems, designed to safeguard shareholders' investments and the Group's assets, however, can only mitigate rather than eliminate the risk of failure to achieve the business objectives of the Group. These systems, by its nature, can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has established an on-going process for identifying, evaluating and managing the significant risks encountered by the Group in achieving its business objectives. The process, which is reviewed and updated from time to time to cater for changes in business environment, has been in place throughout the financial year ended 31 December 2013 and has continued up to the date on which this Statement was approved.

CONTROL STRUCTURE

The key processes that the Board has established for reviewing the adequacy and integrity of risk management and internal controls of the Group are as follows:

Risk Management Framework

The Board recognises the importance of having in place a risk management system to identify key risks and implement appropriate controls to manage such risks as an integral part of the Group's operations. The Group has in place a Risk Management Framework Manual ("RMFM") for all companies within the Group ("OEs"). The RMFM outlines the guiding principles of the risk management approach, structure, roles, responsibilities, accountabilities, reporting requirements as well as the risk identification, evaluation and monitoring process of the Group. It is designed to formalise the risk management functions and practices across the Group and to increase awareness of the Group's employees to risk identification, measurement, control, ongoing monitoring and reporting.

The RMFM is in compliance with the relevant BNM guidelines and policies.

The system of risk governance process is integrated with core management processes and as part of the daily business process so that it can make value-added contribution to establishing sustainable competitive advantage and improving business performance. Various standards are implemented by the Group, including organisational structure, risk strategy, written policies, limits, system documentation and reporting to ensure accurate and timely flow of risk-related information and as a disciplined approach towards decision making and execution.

Statement on Risk Management and Internal Control

The Group also adopts the three line of defence model where the "first line of defence" rests with the business managers. They are responsible in the first instance for both the risks and returns of their decisions. The "second line of defence" is made up of the independent oversight functions such as Risk, Compliance and Legal.

- A risk management function that is independent from business line management has been established to assist the Management to achieve its strategic goals and objectives by implementing risk management activities across the organisation. In addition, the Risk Management Committee ("RMC") has been tasked to assist the Board to discharge their oversight function effectively while the Risk Management Working Committee will drive the risk management framework of the Group and report regularly to the RMC on its recommendations and/or decisions.

- Compliance function will be responsible for integrity management which aims to protect the Group and its employees from regulatory risk while the Legal function seeks to mitigate legal risks which include legislative changes, major litigation and disputes, regulatory proceedings and unclear contractual clauses.

Internal Audit

Internal Audit forms the "third line of defence". The Internal Audit function of the Group, which reports to the Audit Committee, undertakes independent reviews or assessments of the Group's operations and its system of internal controls and provides continuous monitoring of the controls and risk management procedures as well as highlights significant risks impacting the Group. The internal audit personnel are independent from the day-to-day activities of the Group and have unrestricted access to all activities conducted by the Group.

The audit scope covers auditable areas encompassing financial operations, product development, investments, pricing operations, back office functions, agency operations, regulatory compliance and information technology and systems. An annual audit plan is developed based on annual risk assessment and approved by the Audit Committee.

Internal audit findings are discussed at management level. Senior and functional line management are tasked to ensure that management action plans are carried out in accordance with internal audit recommendations. Regular follow-up audits are also performed to monitor continued compliance.

All internal audit reports are submitted to the Audit Committee. The Audit Committee will deliberate on the key audit findings and management actions to address these findings during the Audit Committee meetings. The internal auditors will provide regular updates to the Audit Committee on the progress of the management action plan as well as progress of the audit plan.

Other Key Internal Control Process

The other key processes that the Board has established to provide effective internal control include:

Clear and Defined Organisational Structure

- The Group has established an organisation structure with clearly defined lines of responsibility, authority limits and accountability aligned to its business and operation requirements and control environment. Relevant Board Committees with specific responsibilities delegated by the Board are established to provide oversight governance over the Group's activities. The Board Committees have the authority to examine matters under their terms of reference as approved by the Board and report to the Board with their recommendations.

  Various Management Committees are established by the Management to assist in managing the day-to-day operations and ensure its effectiveness. The Management Committees formulate tactical plans and business strategies, monitor the performance of the Group and ensure activities are carried out in accordance with corporate objectives, strategies, business plans and policies as approved by the Board.

Statement on Risk Management and Internal Control

Management Authority Limit

- The Board's approving authority is delegated to the Management through formal and defined operational authority limits that governs business procedures and decision making process in the Group. The operational authority limits incorporates segregation of duties and check and balance in delegation of authority.

  The management authority limits covers underwriting of risks, claims settlement, reinsurance and capital expenditures and are continuously reviewed and updated to ensure relevance to the Group's operations.

  Such authority limits are documented and made available to all staff via the Group's staff e-portal.

  In ensuring that the decision making process is transparent and to the best interest of the Group, all Directors and staff including the Chief Executive Officer are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Group, any circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

Policies and Procedures

- Clear, formalised and documented internal policies and procedures are in place to ensure continued compliance with internal controls and relevant rules and regulations imposed by the relevant authorities.

  These policies and procedures are subject to review and improvement to reflect changing risks and process enhancement, as and when required.

  The Group consistently informs and reminds its employees on the various policies approved by the Board. Policies are also made available via the Group's portal for easy access by the employees.

Annual Business Plan and Performance Review

- Annual business plans and budgets are reviewed by the Senior Management Committees of the OEs before submitting to the respective OE Boards for approval. Financial condition and business performance reports are also submitted to the respective OE Boards for review during the meetings. These reports cover all key operational areas and provide a sound basis for the respective OE Boards to assess the financial performance of the OEs and to identify potential problems or risks faced by the OEs, thus enabling the respective OE Boards to effectively monitor on an ongoing basis, the affairs of the respective OEs.

Internal Capital Adequacy Assessment Process ("ICAAP")

- ICAAP is an overall process where all its insurance OEs are required to adopt to ensure that it has adequate capital to meet its capital requirements that reflects its own risk profile on an ongoing basis. This formal assessment will be conducted at least on an annual basis based on its annual business plans, business strategy and appetite. Its results will be reported to the OEs Board.

Code of Conduct for Business Ethics and Compliance ("COC")

- Every employee is required to attest on an annual basis that they understand and comply with the Group's COC. The COC among others, is essential in promoting ethical conduct within the Group and encompasses non-disclosure of the Group's information, accountability and areas on potential conflict of interest.

Anti-Money Laundering / Counter Financing of Terrorism ("AML/CFT")

- The Group has in place internal policies and procedures relating to AML/CFT to prevent and detect money laundering and terrorism financing activities. These include customer due diligence, screening against sanction list and suspicious transaction reporting to Compliance Department. In respect of education, staff and agents are trained on AML/CFT requirements to promote understanding of their fundamental responsibilities in adhering to the procedures of verifying customers' identity and reporting of suspicious transactions. The Group will co-operate with any national authorities and law enforcement authorities in combating money laundering/financing of terrorist group operations.

Statement on Risk Management and Internal Control

Whistleblowing and Anti-Fraud

- The Integrity Committee ("InC") was established in May 2013 to replace the Whistleblowing Committee and the Anti-Fraud Committee on oversight of whistleblowing and fraud matters. The restructuring was aim to manage fraud and whistleblowing incidents through a single committee. The InC coordinates all activities concerning prevention and detection of fraud and the handling of whistleblowing incidents.

- The Group has adopted the Group Anti-Fraud Policy and the Group Whistleblowing Policies and Procedures to address fraud and whistleblowing issues respectively. The Group Anti-Fraud Policy defines fraud events, investigation process, reporting procedures, fraud risk assessments, training and the roles and responsibilities of Management and employees. The Group Whistleblowing Policies and Procedures on the other hand describe the Group's Speak-Up policy, avenues for filing a concern and handling of whistleblowing incidents.

- In respect of whistleblowing, the Group had established a whistleblowing mechanism to enable anonymous and non-anonymous reporting of any breach of Allianz SE Group's Code of Conduct for Business Ethics and Compliance, any laws, regulations, orders or regulation or any internal rules. These whistleblowing cases are assessed confidentially by the InC to determine the validity and appropriate actions to be taken.

Anti-corruption

- The Group has adopted the Allianz SE Group's Anti-Corruption Policy ("Anti-Corruption Policy"). The Anti-Corruption Policy serves to outline the Group's existing controls and behavioral guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments.

Sales Policy and Sales Agent Code of Conduct

- The Group's insurance intermediaries are guided by the Sales Policy and Sales Agent Code of Conduct, in order to promote professional sales conduct of intermediaries representing the Group. The Group has established Ethics and Compliance Committee to deal with intermediary behaviours that are contrary to the said Sales Policy and Sales Agent Code of Conduct.

Agent Sales Compliance Disciplinary Policy

- As part of measures to improve uniformity in disciplining the agency force, Allianz Life Insurance Malaysia Berhad had formalised a Sales Compliance Disciplinary Policy detailing definition of types of offences/misconducts and the associated recommended disciplinary actions. The said policy is expected to yield consistent disciplinary actions against agents for misconduct purposes; and provide a transparent approach to reconcile agency behaviour.

Vendor Integrity Screening

- This process aims to ensure a proper integrity due diligence before any vendor is engaged. The screening contains a self-assessment section which among others includes an anti-corruption clause to be completed by the potential vendor and a risk evaluation to be completed by the relevant staff in charge. Only those vendors whose screening does not reveal any negative findings will be accepted.

Business Continuity Management

- Business Continuity Plans for all OEs have been formulated to ascertain that the Group will recover and restore any interrupted critical functions within a predetermined time upon the occurrence of any disastrous events. The testing for Business Continuity Plan for all critical business functions and Disaster Recovery Plan test for all main application systems had been conducted during the financial year ended 31 December 2013 and the findings were submitted for the respective OE Boards' information.

Statement on Risk Management and Internal Control

Human Resources Policies and Procedures

- The Group has established proper policies and procedures on human resource management, including recruitment, training, appraisal, promotion, resignation, termination and remuneration. These policies and procedures are reviewed as and when the need arises and changes effected are communicated to relevant employees via-email or through memorandum. The policies and procedures are also made available via the Group's intranet for easy access by the employees.

  The Group aims to equip employees with the relevant knowledge, skills and competencies required for their roles and responsibilities through structured training and development programmes. These include a combination of classroom training, on-the-job attachment, professional examinations and project assignments. Employees are encouraged to embrace the culture of continuous learning for personal competency and career development.

  Talent development is another key focus area of the Group. As part of ongoing efforts in promoting a culture of high performance and in retaining key staff, the Group has embarked on a systematic approach for identifying and developing these talents. Through the annual Career Development Conference, the Management team is updated on the career and development progress of these individuals.

Review of Statement on Risk Management and Internal Control

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2013, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

(a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or

(b) is factually inaccurate.

RPG 5 (Revised) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The Management has given assurance to the Board on the adequacy and effectiveness of the Group's risk management and internal control system. For the financial year ended 31 December 2013 and up to the date of this Statement, the Management has not identified any significant deficiencies in the design or operation of risk management and internal controls of the Group that could adversely affect the Group's ability in meeting its business objectives.

Additionally, the Internal Auditors of the Group has also reviewed this Statement and reported to the Audit Committee that, save for its presentation to the Audit Committee of the individual lapses in internal controls during the course of its internal audit assignments for the year, it has not identified any circumstances which suggest any fundamental deficiencies in the system of internal control in the Group.

Conclusion

Based on the above, the Board is of the view that the system of internal control and risk management of the Group is sound and sufficient to safeguard shareholders' investments and the Group's assets.

This Statement is made in accordance with the resolution of the Board dated 21 March 2014.

Additional Compliance Information

1. UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS

During the financial year ended 31 December 2013, there were no proceeds raised from corporate proposals.

2. SHARE BUY-BACKS

During the financial year ended 31 December 2013, there were no share buy-backs by the Company.

3. OPTIONS OR CONVERTIBLE SECURITIES

During the financial year ended 31 December 2013, the Company has not issued any option or convertible securities.

During the financial year ended 31 December 2013, the Company increased its issued and fully paid-up ordinary share capital to RM160,751,938 by way of the issuance of 2,115,800 ordinary shares of RM1.00 each pursuant to the conversion of 2,115,800 Irredeemable Convertible Preference Shares ("ICPS") of RM1.00 each to ordinary shares of RM1.00 each of the Company. Accordingly, the ICPS issued and paid-up share capital was reduced to RM185,453,847 as at 31 December 2013.

4. DEPOSITORY RECEIPT PROGRAMME

During the financial year ended 31 December 2013, the Company did not sponsor any depository receipt programme.

5. SANCTIONS AND/OR PENALTIES

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any regulatory bodies during the financial year ended 31 December 2013.

6. NON-AUDIT FEES

Save for the non-audit fee of RM10,000 for the review of the Company's Statement on Risk Management and Internal Control by the external auditors, Messrs. KPMG, there were no other non-audit fees paid by the Group to Messrs. KPMG during the financial year ended 31 December 2013.

7. VARIATION IN RESULTS

There was no deviation between the audited results for the financial year ended 31 December 2013 and the unaudited results of the financial year ended 31 December 2013 of the Group.

8. PROFIT GUARANTEE

During the financial year ended 31 December 2013, there was no profit guarantee given by the Company.

9. MATERIAL CONTRACTS

The Company has on 27 December 2012 entered into an advance agreement ("Advance Agreement") with its holding company, Allianz SE, for a 5-year term loan facility of up to the principal amount of EURO Equivalent of RM54.3 million to be made available by Allianz SE to the Company ("Advance"), upon the terms and conditions as stipulated in the Advance Agreement. The term loan is unsecured and subject to interest of 4.3 percent per annum and repayable in 2018.

The Advance is being utilised by the Company for general working capital purposes and to finance the business expansion of its life operating subsidiary.

Save as disclosed above, the Company and its subsidiaries have not entered into any material contracts involving the interest of the Directors and major shareholders, which is either still subsisting at the end of the financial year ended 31 December 2013 or, had been entered into since the end of the previous financial year.

Additional Compliance Information

10. ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2014

10.1 ORDINARY SHARE OF RM1.00 EACH

Authorised Share Capital	: RM600,000,000
Issued and Paid-up Share Capital	: RM164,401,538
Class of Shares	: Ordinary shares of RM1.00 each
Voting Rights	: One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares
Less than 100	46	2.08	311	0.00
100 to 1,000	1,251	56.66	445,875	0.27
1,001 to 10,000	672	30.43	2,579,435	1.57
10,001 to 100,000	183	8.29	5,605,325	3.41
100,001 to less than 5% of issued shares	55	2.49	40,408,297	24.58
5% and above of issued shares	1	0.05	115,362,295	70.17
Total	2,208	100.00	164,401,538	100.00

SUBSTANTIAL SHAREHOLDER

Name of Substantial Shareholder	Direct Interest		Indirect Interest	
	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares
Allianz SE	115,362,295	70.17	-	-

DIRECTORS' SHAREHOLDINGS

	Direct Interest		Indirect Interest	
Name of Directors	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares
Zakri Bin Mohd Khir	100	^	-	-
Ong Eng Chow	100	^	-	-

^ Negligible

Additional Compliance Information

10. ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONTINUED)

10.1 ORDINARY SHARE OF RM1.00 EACH (CONTINUED)

THIRTY LARGEST SHAREHOLDERS AS IN THE RECORD OF DEPOSITORS

	Name of Shareholders	No. of Shares Held	% of Shares
1	Citigroup Nominees (Asing) Sdn Bhd Allianz SE	115,362,295	70.17
2	Pertubuhan Keselamatan Sosial	4,388,322	2.67
3	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	4,052,000	2.46
4	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Aberdeen)	3,587,500	2.18
5	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (HDBS)	2,976,500	1.81
6	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Aberdeen)	2,410,800	1.47
7	Amanahraya Trustees Berhad Public Smallcap Fund	2,220,200	1.35
8	HSBC Nominees (Asing) Sdn Bhd CACEIS BK FR for HMG Globetrotter	2,103,700	1.28
9	Citigroup Nominees (Tempatan) Sdn Bhd Bank Negara Malaysia National Trust Fund (Hwang)	1,314,100	0.80
10	AMSEC Nominees (Tempatan) Sdn Bhd Aberdeen Asset Management Sdn Bhd For Tenaga Nasional Berhad Retirement Benefit Trust Fund (FM-Aberdeen)	985,900	0.60
11	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (Hwang 6939-403)	972,900	0.59
12	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (CIMB PRIN)	948,700	0.58
13	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Deutsche Wertpapierservice Bank AG (Dresdner BK AG)	943,700	0.57
14	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Amundi)	819,400	0.50
15	Lim Su Tong @ Lim Chee Tong	802,000	0.49
16	HSBC Nominees (Asing) Sdn Bhd HSBC-FS for Asia Discovery Emerging Companies Master Fund Pte. Ltd.	730,000	0.44
17	Cartaban Nominees (Tempatan) Sdn Bhd Exempt AN for Eastspring Investments Berhad	640,400	0.39
18	Citigroup Nominees (Asing) Sdn Bhd CB Spore GW for Firth Asian Smaller Companies Fund	600,325	0.37
19	Citigroup Nominees (Tempatan) Sdn Bhd Universal Trustee (Malaysia) Berhad for CIMB-Principal Equity Fund	569,300	0.35

Additional Compliance Information

10. ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONTINUED)

10.1 ORDINARY SHARE OF RM1.00 EACH (CONTINUED)

THIRTY LARGEST SHAREHOLDERS AS IN THE RECORD OF DEPOSITORS (CONTINUED)

	Name of Shareholders	No. of Shares Held	% of Shares
20	HSBC Nominees (Asing) Sdn Bhd BNYM SA/NV for Hereford Funds Firth Asian Value Fund	554,100	0.34
21	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Hwang Investment Management Berhad For Malaysian Timber Council	505,700	0.31
22	AMSEC Nominees (Tempatan) Sdn Bhd Lim Su Tong @ Lim Chee Tong (8335-1101)	500,000	0.30
23	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Hwang Investment Management Berhad For Malaysian Timber Council (Operating Fund)	478,100	0.29
24	Insas Plaza Sdn Bhd	452,700	0.28
25	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For Hwang Select Asia (Ex Japan) Quantum Fund (4579)	433,450	0.26
26	Jaya Kumar A/L Ganason @ Kanajan	390,000	0.24
27	HSBC Nominees (Asing) Sdn Bhd Exempt AN for BNP Paribas Securities Services (Singapore - SGD)	385,700	0.23
28	Citigroup Nominees (Tempatan) Sdn Bhd Bank Negara Malaysia Medical Fund Account (Hwang)	360,600	0.22
29	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (CIMB Equities)	348,300	0.21
30	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB for Noble Sound Sdn Bhd (PB)	325,000	0.20

Additional Compliance Information

10. ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONTINUED)

10.2 IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES ("ICPS")

Authorised Share Capital : RM400,000,000
Issued and Paid-up Share Capital : RM179,582,322
Class of Shares : Preference shares of RM1.00 each
Voting Rights : The ICPS holders shall carry no right to vote at any general meeting of the Company except for the following circumstances:-

(a) when the dividend or part of the dividend on the ICPS is in arrears for more than 6 months;
(b) on a proposal to wind-up the Company;
(c) during the winding-up of the Company;
(d) on a proposal that affect the rights attached to the ICPS;
(e) on a proposal to reduce the Company's share capital; or
(f) on a proposal for the disposal of the whole of the Company's property, business and undertaking

In any such cases, the ICPS holders shall be entitled to vote together with the holders of ordinary shares and exercise 1 vote for each ICPS held.

DISTRIBUTION OF ICPS HOLDINGS

Size of Holdings	No. of ICPS Holders	% of ICPS Holders	No. of ICPS Held	% of ICPS
Less than 100	20	2.61	499	0.00
100 to 1,000	389	50.65	100,087	0.06
1,001 to 10,000	206	26.82	806,276	0.45
10,001 to 100,000	112	14.58	3,384,875	1.88
100,001 to less than 5% of issued ICPS	40	5.21	31,087,717	17.31
5% and above of issued ICPS	1	0.13	144,202,868	80.30
Total	768	100.00	179,582,322	100.00

DIRECTORS' HOLDINGS IN ICPS

	Direct Interest		Indirect Interest	
Name of Directors	No. of ICPS Held	% of ICPS	No. of ICPS Held	% of ICPS
Zakri Bin Mohd Khir	200	^	-	-
Ong Eng Chow	100	^	-	-

^ Negligible

Additional Compliance Information

10. ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONTINUED)

10.2 IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES ("ICPS") (CONTINUED)

THIRTY LARGEST ICPS HOLDERS AS IN THE RECORD OF DEPOSITORS

	Name of ICPS Holders	No. of ICPS Held	% of ICPS
1	Citigroup Nominees (Asing) Sdn Bhd Allianz SE	144,202,868	80.30
2	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	5,624,400	3.13
3	Pertubuhan Keselamatan Sosial	4,489,100	2.50
4	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (HDBS)	3,263,625	1.82
5	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	3,123,875	1.74
6	Amanahraya Trustees Berhad Public Smallcap Fund	2,771,000	1.54
7	HSBC Nominees (Asing) Sdn Bhd CACEIS BK FR for HMG Globetrotter	1,487,900	0.83
8	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Hwang Select Opportunity Fund (3969)	1,405,000	0.78
9	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Exempt AN for Hwang Investment Management Berhad (TSTAC/CLNT-T)	760,600	0.42
10	Nahoorammah A/P Sithamparam Pillay	760,000	0.42
11	Neoh Choo Ee & Company, Sdn. Berhad	627,500	0.35
12	Sai Yee @ Sia Say Yee	574,900	0.32
13	Olive Lim Swee Lian	505,000	0.28
14	Au Yong Mun Yue	500,000	0.28
15	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Hwang Select Balanced Fund (4405)	460,800	0.26
16	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (Hwang 6939-403)	416,125	0.23
17	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Hwang Select Asia (Ex Japan) Opportunity Fund (5410)	406,900	0.23
18	Employees Provident Fund Board	334,625	0.19
19	AMSEC Nominees (Tempatan) Sdn Bhd Aberdeen Asset Management Sdn Bhd for Tenaga Nasional Berhad Retirement Benefit Trust Fund (FM-Aberdeen)	285,700	0.16
20	Lim Tean Kau	225,000	0.13
21	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Su Ming Keat	220,000	0.12
22	Loh Chai Kiam	219,000	0.12

Additional Compliance Information

10. ANALYSIS OF SHAREHOLDINGS AS AT 23 APRIL 2014 (CONTINUED)

10.2 IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES ("ICPS") (CONTINUED)

THIRTY LARGEST ICPS HOLDERS AS IN THE RECORD OF DEPOSITORS (CONTINUED)

	Name of ICPS Holders	No. of ICPS Held	% of ICPS
23	AMSEC Nominees (Tempatan) Sdn Bhd Lim Su Tong @ Lim Chee Tong (8335-1101)	200,000	0.11
24	Dynaquest Sdn. Berhad	192,000	0.11
25	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB for Noble Sound Sdn Bhd (PB)	175,000	0.10
26	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Hwang Investment Management Berhad for Malaysian Timber Council	166,750	0.09
27	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Beh Lee Fong (E-SS2)	150,200	0.08
28	CIMSEC Nominees (Tempatan) Sdn Bhd Exempt AN for CIMB Securities (Singapore) Pte Ltd (Retail Clients)	150,000	0.08
29	Maybank Nominees (Tempatan) Sdn Bhd Hwang Investment Management Berhad for Malaysian Agents Provident Fund (AIA Ltd)	149,117	0.08
30	Cartaban Nominees (Tempatan) Sdn Bhd TMF Trustees Malaysia Berhad for Hwang Absolute Return Fund	135,000	0.08

Additional Compliance Information

11. LIST OF TOP TEN PROPERTIES AS AT 31 DECEMBER 2013 OWNED BY THE GROUP

No	Location	Existing Use	Tenure	Land Area (Sq. meters)	Type of Property	Age of Property	Latest Date of revaluation	Net Book Value RM'000
1	Level 10, 12, 13, 13A & 15 Block 3A, Plaza Sentral Jalan Stesen Sentral 5 Kuala Lumpur Sentral 50470 Kuala Lumpur	Head office	Freehold	3,745	Corporate office	12 years	1/6/2012	38,620
2	Wisma Allianz 33, Jalan Gereja 50100 Kuala Lumpur	Branch office	Lot PT1-Leasehold Expiring 9/6/2072	525	Office building	30 years	27/4/2011	4,450
			Lot 263-Freehold			32 years	27/4/2011	6,114
3	Wisma Allianz Life No. 11, 12, 13 and 14 Jalan 53 Desa Jaya Commercial Centre Taman Desa, Kepong 52100 Kuala Lumpur	Branch office	Leasehold Expiring 8/3/2081	637	Terrace shop / office	28 years	21/10/2011	4,664
4	No. 46, Jalan Tiara 2C Bandar Baru Klang Klang, 41150 Selangor	Branch office	Leasehold Expiring 8/5/2093	551	Terrace shop / office	11 years	20/10/2011	3,865
5	Unit Nos. A-G-1, A-1-1, A-2-1, A-2-2, Block A Greentown Square Jalan Dato' Seri Ahmad Said Ipoh, 30450 Perak	Branch office	Leasehold Expiring 8/5/2093	882	Commercial building	8 years	20/10/2011	2,617
6	No. 1, Phase 4A Metro Prima Business Centre Jalan Prima 9, Kepong 52100 Kuala Lumpur	Branch office	Leasehold Expiring 2/4/2096	239	Terrace shop /office	16 years	27/12/2011	2,212
7	No. 15, Jalan 8/1D Section 8, Petaling Jaya 46050 Selangor	Branch office	Leasehold Expiring 7/8/2066	174	Terrace shop /office	47 years	25/4/2011	1,834
8	Lot 30, Block E, Sedco Complex Jalan Albert Kwok Locked Bag 69 Kota Kinabalu, 88000 Sabah	Branch office	Leasehold Expiring 3/12/2073	114	4-storey office building	31 years	21/4/2011	1,737
9	No. 300 & 301, Jalan Lumpur Alor Setar 05100 Kedah	Branch office	Freehold	386	Terrace shop/office	10 years	3/5/2011	1,530
10	No. 487, Jalan Permatang Rawa Bandar Perda Bukit Mertajam, 14000 Penang	Branch office	Freehold	212	4-storey shop office	15 years	6/10/2011	1,421

Additional Compliance Information

12. RECURRENT RELATED PARTY TRANSACTIONS

The recurrent related party transactions of a revenue or trading nature entered into by the Group during the financial year ended 31 December 2013 were as follows:-

Nature of Recurrent Related Party Transactions		Name of Related Parties	Income/ (Expenses)
a)	Reinsurance arrangements between the Company's insurance subsidiaries and Allianz SE Group where the risk and premium are shared between the parties in accordance with the reinsurance arrangements entered into between the parties*	**Allianz SE Group	(242,400)
b)	Payment of annual maintenance and support fee by the Company's life insurance subsidiary for the software system provided by Allianz Managed Operations and Services SE ("AMOS")	**AMOS	(383)
c)	Payment of fees by the Company's life insurance subsidiary to IDS GmbH for conducting performance attribution analysis	**IDS GmBH	(10)
d)	Payment of fees by the Group to AMOS for sharing of Allianz Worldwide Intranet Network	**AMOS	(371)
e)	Investment and redemption of funds (including fund management fees) distributed by Allianz Global Investors Singapore Limited ("AGI") by the Company's life insurance subsidiary	**AGI	1,331
f)	Payment of fees by the Group to Allianz Investment Management Sigapore Pte Ltd ("AIM") for investment advisory services provided by AIM	**AIM	(2,052)
g)	Payment of fees by the Group to Allianz SE for sharing of marketing measures undertaken by Allianz SE	**Allianz SE	(1,046)
h)	Payment of service fees by the Company's general insurance subsidiary to Mondial Assistance (Asia) Pte Ltd ("Mondial") for road assistance services provided by Mondial to policyholders	**Mondial	(6,928)
i)	Payment of fees by the Group to AMOS for sharing of Human Resource database platform	**AMOS	(29)
j)	Payment by the Company's insurance subsudiaries to AMOS for purhasing various software licenses	**AMOS	(28)
k)	Payment of training cost by the Group to AMOS for the Opex training programme provided by AMOS, to the employees of the Group	**AMOS	(42)
l)	Payment of fees by the Company's insurance subsidiaries to RCM Asia Pacific Limited ("RCM") for sharing of AGI Global Bloomberg Asset & Investment Manager database, IT support, maintenance and execution of equity transactions provided by RCM	**RCM	(281)
m)	Operational fees received by the Company's general insurance subsidiary for the services rendered to Euler Hermes Singapore Services Pte Ltd ("EHS")	**EHS	44

Note:-

* As the Group is in the insurance business, the figures do not include payment obligations arising from claims duly made pursuant to any insurance policies issued.

** Deemed to be related parties to the Company via Allianz SE's direct interest as the major shareholder of the Company.

Calendar of Moments

January 2013

Trade Credit Insurance

Trade Credit Insurance was introduced on 1 January 2013. It is an insurance to protect the Malaysian Insured (as Exporter) against the risk of not being paid by their Buyer for the goods sold.

February 2013

ATM Shield

Allianz General launched a new Personal Accident insurance policy known as ATM Shield which provides a 24-hour cover for injury or loss sustained as a result of snatch theft, robbery or attempted robbery.

Lunar New Year Celebration

114 Allianz General Eagle agents and some employees gathered in Zebra Square, Kuala Lumpur to welcome the 2013 Lunar New Year.

March 2013

'Karnival Mesro Molek' in Kota Bharu

'Karnival Mesro Molek' was held at Tesco Kota Bharu, Kelantan on 22 and 23 March 2013. As part of Allianz Malaysia's call to promote healthy lifestyle, free health screening, counselling and consultation on health matters were conducted.

Global Money Week

Allianz Malaysia organised a series of events for children in conjunction with Global Money Week between 15 and 21 March 2013. Global Money Week was celebrated worldwide with more than 50 countries participating and connecting with each other to raise awareness on financial education among children and youth.

Calendar of Moments

April 2013

Allianz Junior Football Camp

The Allianz Junior Football Camp 2013 was launched on 26 April 2013. The top three teenagers were selected to go to Munich while seven others from the fourth to the tenth positions participated in the Asian Camp in Phuket, Thailand.

CEOs from Asia Pacific Gather in KL

13 Property and Casualty CEOs from Asia Pacific gathered in Kuala Lumpur on 25 and 26 April 2013. The two-day meeting gave the CEOs an opportunity to exchange ideas while being informed on regional projects.

Allianz Malaysia & FOMCA Promote Financial Literacy

Allianz Malaysia and Federation of Malaysian Consumer Association ("FOMCA") signed a Memorandum of Understanding ("MOU"). The MOU formalises the support of Allianz Malaysia for FOMCA's 2013 Malaysian Consumers Day Celebration ("HPM 2013") competition. My Finance Coach classes were held at 14 schools during FOMCA's outreach programmes in conjunction with its HPM 2013 competition. This joint effort aims to help improve the financial literacy of students and young people.

Media Training for Branches

A series of media training was held nationwide from 9 April to 16 May 2013 for Regional Managers and Branch Managers. The aim was to share with them the importance of media, ways to handle the media and to help create more media stories for the regions.

2013 EB Awards Night

The 2013 Employee Benefits ("EB") Awards and Recognition Dinner, the biggest event to recognise and award top EB agents, was held on 23 April 2013. 56 agents who qualified with a minimum production of RM100,000 were awarded at the exclusive dinner.

Calendar of Moments

May 2013

NUBE Partnership

The National Union of Banking Employees ("NUBE") entered into an agreement with Allianz Life to provide Group Hospital and Surgical Insurance Scheme for its members' dependants with effect from 1 January 2013.

SeatAdvisor Partnership

SeatAdvisor and Allianz General signed a partnership agreement on 23 May 2013 to provide a value added service to ticket buyers in Malaysia for events by SeatAdvisor such as concerts.

Long Short Walk

Allianz Malaysia in collaboration with Jabatan Keselamatan Jalan Raya Malaysia organised a Long Short Walk between Kuala Lumpur Sentral and Jalan Tun Sambathan. The Long Short Walk was held in conjunction with the second United Nations Global Road Safety Week, which is dedicated to pedestrian safety.

Agency Awards Night

Allianz Life held the 2013 Agency Awards Nite on 22 May 2013 at Genting International Convention Centre for its top agents. This awards ceremony recognises agents who keep customers well-informed and protected by identifying and providing them with the best insurance solutions and services.

June 2013

National Marketing Convention

378 agents took part in the National Marketing Convention 2013 on 12 June 2013 at Meritus Pelangi Beach Resort & Spa in Langkawi. Participants were involved in seminars, teambuilding activities, workshop and a dinner gala.

July 2013

Manuel Bauer in Malaysia

Manuel Bauer, a member of the Board of Management of Allianz SE, responsible for Insurance Growth Markets paid a visit to Allianz Malaysia on 18 July 2013. He shared updates from the Group and its strategy for Asia Pacific.

Calendar of Moments

July 2013

Organisational Excellence Programme

Allianz Malaysia held an Organisational Excellence programme in Kuala Lumpur for 16 participants from various companies within Allianz Malaysia. Three participants from Allianz Group OPEX, Singapore joined the programme. This programme provides a higher transparency of the organisation, identification of areas to act upon, a detailed and documented target set-up as well as a common language in the Group.

Allianz Academy's First Anniversary

6 July 2013 marked the first anniversary of Allianz Academy. In conjunction with its first anniversary celebration, Allianz Academy conducted a week of learning and development sessions from 1 to 4 July for employees of Allianz Malaysia and an 'Amazing Race' on 5 July 2013.

Brigitte Miksa in Malaysia

Allianz Malaysia welcomed Brigitte Miksa, the Head of International Pensions at Allianz Asset Management AG. She shared her insights and expertise on retirement with the senior management, media and regulators.

August 2013

Hari Raya Open House

On 29 August 2013, Allianz Malaysia hosted a Hari Raya Open House at Sunway Resort Hotel & Spa, Petaling Jaya. Nearly 2,000 Allianz Malaysia agents, business partners, associates, journalists and guests from regulatory bodies attended this event.

Achieving Impact as Women Managers

A lunch sharing session on Achieving Impact as Women Managers was held on 28 August 2013. Y.Bhg. Tan Sri Datuk (Dr.) Rafiah Salim, the first woman Director of Allianz Malaysia Berhad gave a lively presentation on challenges faced by women managers and how to become more effective as women managers.

Women's Safety Awareness Campaign at Maju Tower

Allianz Malaysia held a women's Safety Awareness Campaign on 25 August 2013 at Maju Tower, Jalan Sultan Ismail in Kuala Lumpur. The event was supported by the Ministry of Women, Family and Community Development and Polis DiRaja Malaysia. Various training sessions and demonstrations were taught to women who attended the campaign.

Calendar of Moments

September 2013

One Campaign 2013

Allianz Malaysia launched its One Campaign 2013 which was initiated by the Allianz Group to maintain consistency in the "One" message across all platforms. In 2013, Allianz Malaysia's "One Campaign" advertising focused on the Allianz brand name while continuing to emphasise on delivering Allianz's excellent service.

First Legacy Programme

The journey of Allianz's selection of young football talents right after the Allianz Junior Football Camp ("AJFC") 2013 was extended through its 'Legacy Programme'. This programme brought back the top 25 boys who were shortlisted from the selection matches held in Kuantan and Kuala Lumpur in June 2013 and previous winners of the AJFC.

Allianz Pathfinder

Allianz Malaysia's 'PathFinder' – an Allianz Walk and Treasure Hunt challenge around Klang Valley for young adventure seekers was held on 21 September 2013, incorporating the use of social media. 27 teams competed in this five-hour journey that tested their skills in culinary, shopping and mental agility.

Final Townhall

The Head Office, KL Branch and Central Region branches attended the final townhall session for the year on 21 October 2013. Topics that were shared included the results and strategy of Allianz in the Asia Pacific region and Malaysia; service culture, brand and community activities and commitments. Other regions and branches organised mini Townhalls thereafter.

October 2013

Technical Certification Programme

The Allianz Technical Certification Programme - Intermediate Level Phase 1 was officially launched by Chief Operations Officer, Sean Wang on 1 October 2013. The programme was organised to enhance the technical knowledge of branch Admin and Technical Officers, Underwriting and Claims personnel.

Calendar of Moments

October 2013

Bloggers Event

Allianz Malaysia took over 100 bloggers through a 'chilling' experience to create awareness on safety and the importance of insurance in a 1942 Haunted House Warehouse setting at the Renoma Cafe Gallery in Kuala Lumpur on 31 October 2013.

Golf with Media

On 31 October 2013, Allianz Malaysia organised a friendly golf tournament for 40 golfers comprising representatives from the media and senior management at the Kuala Lumpur Golf and Country Club.

November 2013

Penang Bridge International Marathon

The Penang Bridge International Marathon took place on 17 November 2013. Allianz was the Gold sponsor and used this platform to launch the Allianz Pacer Running Community which is built on social media tools to create a consistent and sustainable running community. Many activities were organised for the runners with the message to lead a healthier lifestyle through running.

Tamil Selvi as Regional Head of Audit

Allianz Malaysia's Chief Internal Auditor, Tamil Selvi Shanmugam was appointed Regional Head of Audit for Asia Pacific as of 1 November 2013.

Flood Survival and Drowning Risk Awareness Campaign

Allianz Malaysia took part as one of the sponsors for the Flood Survival and Drowning Risk Awareness Campaign organised by the Malaysian Volunteer Fire & Rescue Association at Cheras Leisure Mall, Kuala Lumpur on 24 November 2013. The Campaign is the first of its kind for Allianz Malaysia and is part of its Corporate Responsibility initiatives to create awareness amongst the general public on flood risks and how to mitigate these risks.

Calendar of Moments

December 2013

Allianz Malaysia Receives Corporate Governance Award

Allianz Malaysia Berhad won an award in the Minority Shareholders Watchdog Group's Malaysia-ASEAN Corporate Governance Awards 2013. On 16 December 2013, Allianz Malaysia Berhad was announced as the winner for the Top Overall Corporate Governance Award under the Mid-Cap category.

January 2014

'Let's Get Personal' 2014 Campaign

Allianz General launched the 'Let's Get Personal' 2014 Campaign at Le Meridien Hotel, Kuala Lumpur on 7 January 2014. The Company embarked on this new campaign with a series of products and initiatives for customers and the general public alike to create awareness on Personal Lines insurance.

'Let Allianz Protect Your Retirement'

On 13 January 2014, Allianz Life launched its retirement campaign themed, 'Let Allianz Protect your Retirement' in Kuala Lumpur with the aim to offer a holistic insurance solution for customers.

Financial Statements

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Total Assets

RM10,758.76 million

Profit Before Tax

RM339.23 million

Shareholders' Fund

RM2,024.18 million

Directors' Report

for the financial year ended 31 December 2013

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

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding activities, whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to owners of the Company	237,921	39,166

DIVIDENDS

Since the end of the previous financial year, the Company paid:

i) a first and final preference share dividend of 7.80 sen per Irredeemable Convertible Preference Share ("ICPS") under single tier system totaling RM14,566,000 in respect of the financial year ended 31 December 2012 on 6 August 2013; and

ii) a first and final ordinary share dividend of 6.50 sen per ordinary share less 25% tax totaling RM7,774,000 (4.88 sen net per ordinary share) in respect of the financial year ended 31 December 2012 on 6 August 2013.

In respect of the financial year ended 31 December 2013, the Directors recommended a single tier dividend of 3.00 sen per ICPS and a single tier dividend of 2.50 sen per ordinary share.

RESERVES AND PROVISIONS

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

Directors' Report

for the financial year ended 31 December 2013

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Tan Sri Razali Bin Ismail (Chairman)
Foo San Kan
Dato' Dr. Thillainathan A/L Ramasamy
Tan Sri Datuk (Dr.) Rafiah Binti Salim
Jens Reisch
Zakri Bin Mohd Khir
Ong Eng Chow
Alexander Cornelius Ioannis Ankel (appointed on 17 March 2014)

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1.00 each			
Interests in the Company:	At 1.1.2013	Bought	Sold	At 31.12.2013
Zakri Bin Mohd Khir	100	-	-	100
Ong Eng Chow	100	-	-	100

	Number of ICPS of RM1.00 each			
Interests in the Company:	At 1.1.2013	Bought	Sold	At 31.12.2013
Zakri Bin Mohd Khir	200	-	-	200
Ong Eng Chow	100	-	-	100

	Number of registered shares*			
Interests in the ultimate holding company, Allianz SE:	At 1.1.2013	Bought	Sold	At 31.12.2013
Jens Reisch	758	-	-	758

* The shares have no par value.

Save as disclosed above, none of the other Directors holding office at 31 December 2013 had any interest in the ordinary shares and/or ICPS of the Company and of its related corporations during the financial year.

Directors' Report

for the financial year ended 31 December 2013

DIRECTORS' BENEFITS

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

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ISSUE OF SHARES

During the financial year, the Company increased its issued and fully paid-up share capital to RM160,751,938 by way of the issuance of 2,115,800 ordinary shares of RM1 each pursuant to the conversion of 2,115,800 ICPS of RM1 each to ordinary shares of RM1 each of the Company. Accordingly, the amount of ICPS in the share capital of the Company was reduced to RM185,453,847 as at 31 December 2013.

All the new ordinary shares issued rank *pari passu* in all respects with the existing ordinary shares of the Company except that the new shares shall not be entitled to any dividends, rights, allotments and/or other distributions where the entitlement date is prior to the allotment date of the new ordinary shares.

Save as disclosed above, there were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

SIGNIFICANT EVENT

Details of the significant event during the financial year are disclosed in Note 41 to the financial statements.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:-

(i) all known bad debts have been written off and adequate provision made for doubtful debts;

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise; and

(iii) there was adequate provision for insurance contract liabilities in the Group in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework issued by Bank Negara Malaysia ("BNM").

At the date of this report, the Directors are not aware of any circumstances:-

(i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

Directors' Report

for the financial year ended 31 December 2013

OTHER STATUTORY INFORMATION (CONTINUED)

(iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2013 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

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

…………………………………………………….

Tan Sri Razali Bin Ismail

…………………………………………………….

Jens Reisch

Kuala Lumpur,

Date: 21 March 2014

Statements of Financial Position

as at 31 December 2013

	Note	Group 2013 RM'000	Group 2012 RM'000	Company 2013 RM'000	Company 2012 RM'000
Assets					
Property, plant and equipment	3	116,486	111,727	425	572
Intangible assets	4	325,328	288,037	-	-
Investment properties	6	5,600	4,962	-	-
Investments in subsidiaries	7	-	-	1,084,521	1,084,521
Subordinated loan	15	-	-	54,300	-
Deferred tax assets	16	18,082	6,255	-	-
Reinsurance assets	11	1,266,704	1,170,471	-	-
Investments	8	7,997,409	6,827,772	19,916	10,500
Derivative financial assets	18	-	8,946	-	-
Current tax assets		3,363	4,242	558	679
Insurance receivables	9	163,041	144,569	-	-
Other receivables, deposits and prepayments	10	175,369	116,373	5,250	3,652
Deferred acquisitions costs	5	68,881	59,315	-	-
Cash and cash equivalents		618,499	447,817	14,069	6,831
Total assets		10,758,762	9,190,486	1,179,039	1,106,755
Equity					
Share capital	19	160,752	158,636	160,752	158,636
Irredeemable Convertible Preference Shares	19	185,454	187,570	185,454	187,570
Reserves	20	1,677,976	1,494,580	642,247	625,421
Total equity attributable to owners of the Company		2,024,182	1,840,786	988,453	971,627
Liabilities					
Insurance contract liabilities	17	7,770,113	6,562,995	-	-
Deferred tax liabilities	16	127,179	115,147	25	40
Derivative financial liabilities	18	20,950	-	-	-
Other financial liabilities		3,612	3,853	-	-
Insurance payables	13	337,233	328,933	-	-
Other payables and accruals	14	351,782	242,555	190,561	135,088
Benefits and claims liabilities	12	117,858	84,813	-	-
Current tax liabilities		5,853	11,404	-	-
Total liabilities		8,734,580	7,349,700	190,586	135,128
Total equity and liabilities		10,758,762	9,190,486	1,179,039	1,106,755

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

Statements of Profit or Loss

for the year ended 31 December 2013

		Group		Company	
		2013	2012	2013	2012
	Note	RM'000	RM'000	RM'000	RM'000
Operating revenue	21	3,649,389	3,147,599	44,656	1,838
Gross earned premiums	22(a)	3,330,255	2,875,329	-	-
Premiums ceded to reinsurers	22(b)	(475,842)	(552,683)	-	-
Net earned premiums		2,854,413	2,322,646	-	-
Investment income	23	319,134	272,270	44,656	1,838
Realised gains and losses	24	64,004	44,948	-	-
Fair value gains and losses	25	(72,857)	12,887	-	-
Fee and commission income	26(a)	94,184	103,687	-	-
Other operating income		13,180	7,660	833	874
Other income		417,645	441,452	45,489	2,712
Gross benefits and claims paid	27(a)	(1,273,418)	(1,100,898)	-	-
Claims ceded to reinsurers	27(b)	253,876	265,356	-	-
Gross change in contract liabilities	27(c)	(924,206)	(788,493)	-	-
Change in contract liabilities ceded to reinsurers	27(d)	(27,905)	(10,312)	-	-
Net benefits and claims		(1,971,653)	(1,634,347)	-	-
Fee and commission expense	26(b)	(535,418)	(479,642)	-	-
Management expenses	28	(400,024)	(338,382)	(2,563)	(2,861)
Other operating expenses		(25,732)	(13,948)	(3,286)	(175)
Other expenses		(961,174)	(831,972)	(5,849)	(3,036)
Profit/(Loss) before tax		339,231	297,779	39,640	(324)
Tax (expense)/credit	29	(101,310)	(90,174)	(474)	486
Profit for the year		237,921	207,605	39,166	162

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

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2013

		Group		Company	
		2013	2012	2013	2012
	Note	RM'000	RM'000	RM'000	RM'000
Profit for the year		237,921	207,605	39,166	162
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to profit or loss					
Revaluation of property, plant and equipment	20.2	-	19,456	-	-
Tax effects thereon	29.2	-	(4,863)	-	-
		-	14,593	-	-
Items that may be reclassified subsequently to profit or loss					
Fair value of available-for-sale financial assets	8	(42,937)	(1,727)	-	-
Tax effects thereon	29.2	10,752	418	-	-
		(32,185)	(1,309)	-	-
Total other comprehensive income for the year, net of tax		(32,185)	13,284	-	-
Total comprehensive income for the year, net of tax		205,736	220,889	39,166	162
Profit attributable to:					
Owners of the Company		237,921	207,605	39,166	162
Total comprehensive income attributable to:					
Owners of the Company		205,736	220,889	39,166	162
Basic earnings per ordinary share (sen)	30(a)	149.24	132.21	-	-
Diluted earnings per ordinary share (sen)	30(b)	58.94	54.41	-	-

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

Group	Note	Share capital RM'000	Preference shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Fair value reserve RM'000	Life non participating fund surplus* RM'000	Retained earnings RM'000	Total equity RM'000
		← Attributable to owners of the Company →							
		← Non-distributable					→	Distributable	
At 1 January 2012		156,428	189,778	424,823	10,529	20,656	244,204	591,594	1,638,012
Revaluation of property, plant and equipment		-	-	-	14,593	-	-	-	14,593
Fair value of available-for-sale financial assets		-	-	-	-	(1,309)	-	-	(1,309)
Total other comprehensive income for the year		-	-	-	14,593	(1,309)	-	-	13,284
Profit for the year		-	-	-	-	-	35,216	172,389	207,605
Total comprehensive income for the year		-	-	-	14,593	(1,309)	35,216	172,389	220,889
Contributions by and distributions to owners of the Company									
Conversion of Irredeemable Convertible Preference Shares to ordinary shares		2,208	(2,208)	-	-	-	-	-	-
Dividends to owners of the Company	31	-	-	-	-	-	-	(18,115)	(18,115)
Total transactions with owners of the Company		2,208	(2,208)	-	-	-	-	(18,115)	(18,115)
At 31 December 2012		158,636	187,570	424,823	25,122	19,347	279,420	745,868	1,840,786
		Note 19	Note 19	Note 20.1	Note 20.2	Note 20.3	Note 20	Note 20	

* The Life non participating fund surplus amount is net of deferred tax. This amount is only distributable when the surplus is transferred from the life fund to the shareholders' fund.

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

		← Attributable to owners of the Company →							
		← Non-distributable					→	Distributable	
Group	Note	Share capital RM'000	Preference shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Fair value reserve RM'000	Life non participating fund surplus* RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2013		158,636	187,570	424,823	25,122	19,347	279,420	745,868	1,840,786
Revaluation of property, plant and equipment		-	-	-	-	-	-	-	-
Fair value of available-for-sale financial assets		-	-	-	-	(32,185)	-	-	(32,185)
Total other comprehensive income for the year		-	-	-	-	(32,185)	-	-	(32,185)
Profit for the year		-	-	-	-	-	42,740	195,181	237,921
Total comprehensive income for the year		-	-	-	-	(32,185)	42,740	195,181	205,736
Contributions by and distributions to owners of the Company									
Conversion of Irredeemable Convertible Preference Shares to ordinary shares		2,116	(2,116)	-	-	-	-	-	-
Dividends to owners of the Company	31	-	-	-	-	-	-	(22,340)	(22,340)
Total transactions with owners of the Company		2,116	(2,116)	-	-	-	-	(22,340)	(22,340)
At 31 December 2013		160,752	185,454	424,823	25,122	(12,838)	322,160	918,709	2,024,182
		Note 19	Note 19	Note 20.1	Note 20.2	Note 20.3	Note 20	Note 20	

* The Life non participating fund surplus amount is net of deferred tax. This amount is only distributable when the surplus is transferred from the life fund to the shareholders' fund.

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

Statement of Changes in Equity

for the year ended 31 December 2013

		Attributable to owners of the Company					
		Non-distributable				Distributable	
Company	Note	Share capital RM'000	Preference shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2012		156,428	189,778	424,823	-	218,551	989,580
Profit for the year		-	-	-	-	162	162
Total comprehensive income for the year		-	-	-	-	162	162
Contributions by and distributions to owners of the Company							
Conversion of Irredeemable Convertible Preference Shares to ordinary shares		2,208	(2,208)	-	-	-	-
Dividends to owners of the Company	31	-	-	-	-	(18,115)	(18,115)
Total transactions with owners of the Company		2,208	(2,208)	-	-	(18,115)	(18,115)
At 31 December 2012 / 1 January 2013		158,636	187,570	424,823	-	200,598	971,627
Profit for the year		-	-	-	-	39,166	39,166
Total comprehensive income for the year		-	-	-	-	39,166	39,166
Contributions by and distributions to owners of the Company							
Conversion of Irredeemable Convertible Preference Shares to ordinary shares		2,116	(2,116)	-	-	-	-
Dividends to owners of the Company	31	-	-	-	-	(22,340)	(22,340)
Total transactions with owners of the Company		2,116	(2,116)	-	-	(22,340)	(22,340)
At 31 December 2013		160,752	185,454	424,823	-	217,424	988,453
		Note 19	Note 19	Note 20.1		Note 20	

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

Statements of Cash Flows

for the year ended 31 December 2013

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit/(Loss) before tax	339,231	297,779	39,640	(324)
Investment income	(319,134)	(272,270)	(44,656)	(1,838)
Realised gains recorded in profit or loss	(64,004)	(44,922)	-	-
Fair value losses/(gains) on financial investments recorded in profit or loss	68,998	(20,546)	-	-
Purchase of held-to-maturity ("HTM") financial investments	(209,920)	(368,635)	-	-
Maturity of HTM financial investments	10,000	37,000	-	-
Purchase of available-for-sale ("AFS") financial investments	(1,200,355)	(1,220,913)	-	-
Maturity of AFS financial investments	296,500	185,000	-	-
Proceeds from sale of AFS financial investments	515,443	494,047	-	-
Purchase of designated upon initial recognition ("DUIR") financial investments	(493,375)	(370,966)	-	-
Maturity of DUIR financial investments	92,028	148,760	-	-
Proceeds from sale of DUIR financial investments	164,097	130,710	-	-
Purchase of held for trading ("HFT") financial investments	(569,961)	(425,400)	-	-
Maturity of HFT financial investments	9,500	20,000	-	-
Proceeds from sale of HFT financial investments	240,483	240,948	-	-
Purchase of derivative financial investments	(2,819)	(3,200)	-	-
Change in loans and receivables	(13,231)	(20,487)	(9,416)	(10,500)
Non-cash items:				
Change in fair value of investment properties	(638)	(1,230)	-	-
Change in fair value of AFS financial assets	(34,709)	(38,073)	-	-
Unrealised foreign exchange losses/(gains)	2,552	(125)	-	-
Depreciation of property, plant and equipment	13,389	12,179	231	216
Amortisation of intangible assets	15,166	11,442	-	-
Gain on disposal of property, plant and equipment	-	(26)	-	-
Impairment loss on financial investments	4,497	8,889	-	-
Interest expense	4,310	1,953	2,297	-
Property, plant and equipment written off	16	102	1	-
Insurance and other receivables:				
- Impairment loss written off	1,055	982	-	-
- Reversal of allowance for impairment loss	(1,311)	(1,210)	-	-
- Impairment loss recovered	(194)	(373)	-	-

Statements of Cash Flows

for the year ended 31 December 2013

	Group		Company	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Changes in working capital:				
Change in reinsurance assets	(96,233)	(16,320)	-	-
Change in insurance receivables	(18,159)	(26,570)	-	-
Change in other receivables, deposits and prepayments	(1,427)	(14,233)	743	(259)
Change in insurance contract liabilities	1,207,118	934,755	-	-
Change in deferred acquisition costs	(9,566)	(9,648)	-	-
Change in other financial liabilities	(241)	(399)	-	-
Change in insurance payables	8,300	45,751	-	-
Change in other payables	(2,277)	39,761	30	414
Change in benefits and claims liabilities	33,045	16,240	-	-
Cash used in operations	(11,826)	(229,248)	(11,130)	(12,291)
Tax (paid)/refunded	(98,043)	(75,477)	(368)	201
Dividends received	26,847	20,862	41,527	-
Coupon interest received	293,563	251,189	789	611
Net cash from/(used in) operating activities	210,541	(32,674)	30,818	(11,479)
Investing activities				
Proceeds from disposal of property, plant and equipment	3	605	-	-
Acquisition of property, plant and equipment	(19,460)	(13,372)	(85)	(116)
Acquisition of intangible assets	(51,164)	(416)	-	-
Net cash used in investing activities	(70,621)	(13,183)	(85)	(116)
Financing activities				
Dividends paid to owners of the Company	(22,340)	(18,115)	(22,340)	(18,115)
Repayment of finance lease liabilities	(43)	(103)	-	-
Interest paid	(1,155)	-	(1,155)	-
Proceeds from loan from holding company	54,300	-	54,300	-
Subordinated loan (to)/repayment from a subsidiary	-	-	(54,300)	30,670
Net cash from /(used in) financing activities	30,762	(18,218)	(23,495)	12,555
Net increase/(decrease) in cash and cash equivalents	170,682	(64,075)	7,238	960
Cash and cash equivalents at 1 January	447,817	511,892	6,831	5,871
Cash and cash equivalents at 31 December	618,499	447,817	14,069	6,831
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions (with maturity of less than three months)	585,999	424,827	13,928	6,792
Cash and bank balances	32,500	22,990	141	39
	618,499	447,817	14,069	6,831

Included in the fixed and call deposits are RM66,385,000 (2012: RM63,051,000) held as cash collateral for guarantees issued on behalf of the policyholders (Note 13).

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

Notes to the Financial Statements

PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

Allianz Malaysia Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office of the Company is as follows:

Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the financial year ended 31 December 2013 do not include other entities.

The Company is principally engaged in investment holding activities while the principal activities of the subsidiaries are as stated in Note 7.

The holding and ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

The financial statements were authorised for issue by the Board of Directors on 21 March 2014.

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards, the requirements of the Companies Act, 1965 in Malaysia, the Insurance Act, 1996 (repealed on 30 June 2013), Financial Services Act, 2013 ("FSA") (effective on 30 June 2013) and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

1.1 Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014 (continued)

- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Properties (Annual Improvements 2011-2013 Cycle)*

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

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- MFRS 9, *Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

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

- from the annual period beginning on 1 January 2014 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014.

- from the annual period beginning on 1 January 2015 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 July 2014, except for Amendments to MFRS 1, Amendments to MFRS 2 and Amendments to MFRS 119 which are not applicable to the Group and the Company.

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

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities and on hedge accounting. Upon the adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The adoption of MFRS 9 may result in a change in accounting policy for financial assets. The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 9.

1.2 Basis of measurement

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

1.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's and the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1.4 Use of estimates and judgements

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

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

1.4 Use of estimates and judgements (continued)

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 significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

Note 2.3	- revaluation of owner occupied properties
Note 2.6	- fair value measurement of financial instruments
Note 2.7	- determination of the recoverable amounts of cash-generating units
Note 2.8	- valuation of investment properties
Note 2.25.1	- valuation of general insurance claims liabilities
Note 2.25.2	- valuation of life insurance contract liabilities

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of consolidation

2.1.1 Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group adopted MFRS 10, *Consolidated Financial Statements* in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the previous financial years, control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights are considered when assessing control when such rights are presently exercisable.

- The Group considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In the previous financial years, the Group did not consider *de facto* power in its assessment of control.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 10. The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

2.1.2 Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.1.3 Acquisition of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

2.1.4 Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

2.1.5 Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

2.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2.2 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting period except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2.3 Property, plant and equipment

2.3.1 Recognition and measurement

Items of property, plant and equipment except for work-in-progress are measured at cost/valuation less any accumulated depreciation and any accumulated impairment losses. Work-in-progress is stated at cost.

The Group revalues its properties comprising land and buildings every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

The revalued amounts of property are determined by using the comparison method. The comparison method entails critical analysis of recent evidence of values of comparable properties in the neighbourhood and making adjustment for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics.

Valuation of the properties involves a degree of judgement before arriving at the respective property's revalued amount. As such, the revalued amount of the properties may be different from its actual market price.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Property, plant and equipment (continued)

2.3.1 Recognition and measurement (continued)

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "realised gains and losses" in the profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

2.3.2 Subsequent costs

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

2.3.3 Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

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

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

Leasehold land	Over lease period
Buildings	50 years
Office equipment, computers, furniture and fittings	3 to 10 years
Motor vehicles	5 years
Office renovation and partitions	10 years

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Intangible assets

2.4.1 Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity accounted associates and joint venture, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted associates and joint venture.

2.4.2 Development costs

Expenditure incurred on software development is capitalised, only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use the asset.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the profit or loss as an expense as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

2.4.3 Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

2.4.4 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

2.4.5 Amortisation

Amortisation is based on the cost of an asset less its residual value.

Goodwill with indefinite useful lives is not amortised but is tested for impairment annually and whenever there is an indication that it may be impaired.

Intangible assets with finite useful lives are amortised from the date that they are available for use.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Capitalised software development costs	5 years
Other intangible assets	10 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Leased assets

2.5.1 Finance leases

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

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

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

2.5.2 Operating leases

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

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

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

2.6 Financial instruments

2.6.1 Initial recognition and measurement

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

2.6.2 Financial instruments categories and subsequent measurement

The Group and the Company categorise and measure financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

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

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

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

(b) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(c) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market that include loans, other receivables, deposits, cash and cash equivalents.

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

(d) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

2.6.2 Financial instruments categories and subsequent measurement (continued)

Financial assets (continued)

(e) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the carrying amount of the insurance receivable will be reduced accordingly and the impairment loss recognised in profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.7.2.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.6.5 have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2.7).

Financial liabilities

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

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

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

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

2.6.3 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair value arising from financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

2.6.4 Regular way purchase or sale of financial assets

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

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

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

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

2.6.5 Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

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

2.7 Impairment

2.7.1 Financial assets, excluding insurance receivables

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

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2.7.2 below) and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in the profit or loss and is measured as the difference between the financial asset's acquisition cost (net of any principal repayment and amortisation) and the financial asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Impairment (continued)

2.7.1 Financial assets, excluding insurance receivables (continued)

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

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

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

2.7.2 Insurance receivables

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

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

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

2.7.3 Other assets

The carrying amounts of other assets (except for investment properties that are measured at fair value and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill that has indefinite useful lives, the recoverable amount is estimated usually at each reporting date.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (known as "cash-generating unit"). For the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Impairment (continued)

2.7.3 Other assets (continued)

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

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

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation reserve. When an impairment loss on the same revalued asset was previously recognised in the profit or loss, a reversal of that impairment loss is recognised in the profit or loss.

2.8 Investment properties

2.8.1 Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in the profit or loss for the period in which they arise.

Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in the profit or loss in the period in which the item is derecognised.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Investment properties (continued)

2.8.2 Reclassification to/from investment property

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised in other comprehensive income and accumulated in equity as revaluation reserve. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

2.8.3 Determination of fair value

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment properties portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from its actual market price.

2.9 Non-current assets held for sale

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

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

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

Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated.

2.10 Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hands, balances and deposits with financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 2.6.2 (c).

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Equity instruments

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

2.11.1 Ordinary shares

Ordinary share capital is classified as equity.

2.11.2 Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as financial liability if it is redeemable on a specific date or at the option of the equity holders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

2.12 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Group.

2.13 Other financial liabilities and insurance payables

Other financial liabilities and insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

2.14 Product classification

Product classification applies to the Group's general insurance and life insurance subsidiaries.

The insurance subsidiaries issue contracts that transfer insurance risk or financial risk or both.

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Product classification (continued)

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the insurance subsidiary (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the insurance subsidiary determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts are those contracts that do not transfer significant insurance risk.

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

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

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

Under the terms of the contracts, surpluses in the DPF funds can be distributed on a discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

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

When insurance contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the statements of financial position similar to investment contracts.

2.15 Reinsurance

Reinsurance applies to the Group's general insurance and life insurance subsidiaries.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Reinsurance (continued)

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

The insurance subsidiary also assumes reinsurance risk in the normal course of business for life insurance and general (non-life) insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statements of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

2.16 General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premium reserves and claims incurred.

2.16.1 Premium income

(a) Gross premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period.

(b) Reinsurance premiums

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

Inwards treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inceptions dates of these risks and contractually accounted for, as such to reinsurers under the terms of the proportional treaties.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 General insurance underwriting results (continued)

2.16.1 Premium income (continued)

(b) Reinsurance premiums (continued)

In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premiums are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

2.16.2 Unearned premium reserves ("UPR")

Unearned premium reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

In determining UPR at the end of the reporting period, the method that most accurately reflects the actual unearned premium used is as follows:

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method (or other more accurate) method for all other classes of Malaysian general policies
- 1/8th method for all other classes of overseas inward treaty business
- Non-annual policies are time-apportioned over the period of the risks

2.16.3 Claims and expenses

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the end of the reporting period.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the end of the reporting period, using a mathematical method of estimation.

2.16.4 Acquisition costs and deferred acquisition cost ("DAC")

The gross costs of acquiring and renewing insurance policies and income derived from ceding reinsurance premiums are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

Those costs are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, deferred acquisition cost is amortised/allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. DAC is also considered in the liability adequacy test for each accounting period.

DAC is derecognised when the related contracts are either settled or disposed of.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 General insurance underwriting results (continued)

2.16.5 General insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities

Claims liabilities are recognised in respect of both direct insurance and inward reinsurance. Claims liabilities refer to the obligation by the insurance subsidiary, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims incurred but not reported ("IBNR"), claims incurred but not enough reserved ("IBNER") together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall insurance subsidiary level. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserve is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Premium liabilities

Premium liabilities is the higher of the aggregate of the UPR and the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the PRAD calculated at the overall insurance subsidiary level.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during administering these policies and settling the relevant claims, and expected future premium refunds.

2.17 Life insurance underwriting results

2.17.1 Surplus of Life fund

The surplus transferable from the Life fund to the profit or loss is based on the surplus determined by an annual actuarial valuation of the liabilities to policyholders, made in accordance with the provisions of the Financial Services Act, 2013 by the insurance subsidiary's appointed actuary.

2.17.2 Gross premiums

Gross premiums are recognised as soon as the amount of the premiums can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured. Premiums not received on due dates are recognised as revenue in the profit or loss and reported as outstanding premiums in the statements of financial position.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Life insurance underwriting results (continued)

2.17.3 Reinsurance premiums

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

2.17.4 Benefits, claims and expenses

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

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

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

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

2.17.5 Life insurance contract liabilities

Life insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

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

The liability in respect of policies of a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the contract level derived as stated above.

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Life insurance underwriting results (continued)

2.17.5 Life insurance contract liabilities (continued)

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

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

2.17.6 Investment contract liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, investment contract liabilities are remeasured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statements of financial position.

Fair value adjustments are performed at each reporting date and are recognised in profit or loss. Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each investment-linked fund multiplied by the unit-price of those funds at the end of the reporting period. The fund assets and fund liabilities used to determine the unit-prices at the end of the reporting period are adjusted to take into account the effect of deferred tax on unrealised gains and losses on assets in the fund.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

2.18 Fees and commission income

Insurance contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as income over the period in which the related services are performed. If the fees are for services to be provided in future periods, then, they are deferred and recognised over those future periods.

2.19 Commission and agency expenses

Gross commission and agency expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurance in the course of ceding of premiums to reinsurers, are charged to profit or loss in the period in which they are incurred or deferred where appropriate as set out in Note 2.16.4.

2.20 Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Other revenue recognition (continued)

2.20.1 Interest income

Interest income is recognised as it accrues, using the effective interest method in profit or loss except where an interest bearing financial investment is considered non-performing i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

2.20.2 Rental income

Rental income from investment properties and self-occupied properties are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease on an accrual basis. Rental income from subleased property is recognised as other income.

2.20.3 Dividend income

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

2.20.4 Realised gains and losses on investments

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

2.21 Short-term employee benefits

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

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

The Group's and the Company's contributions to the statutory pension funds are charged to the profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

2.22 Income tax

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Income tax (continued)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and their tax base. Deferred tax is not recognised if the temporary differences arise from the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2.8.1, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held with the objective to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax liability is recognised for all taxable temporary differences.

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

2.23 Earnings per ordinary share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible notes.

2.24 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Significant accounting judgements, estimates and assumptions

2.25.1 Valuation of general insurance claims liabilities

For general insurance contracts, claims liabilities are the outstanding claims reserve required for the future settlement of losses on claims which have occurred but have yet to be fully settled. Claims liabilities fall into two categories: expected ultimate cost of claims reported and expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period.

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

The expected ultimate cost of claims reported are based on estimates of future payments that will be made with respect to individual claims. Such estimates are made on a case-by-case basis, based on the information available at the time the reserves are established. The estimates reflect the informed judgement of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. These reserves are regularly re-evaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available.

IBNR reserves are established to recognise the estimated cost of losses that have occurred but where the insurance subsidiary has not yet been notified. The valuation of IBNR reserves is carried out by an independent qualified actuary using his professional judgement in applying actuarial methodology and assumptions, based on the insurance subsidiary's current and past claims experience, taking into account the insurance subsidiary's underwriting practice and industry experience. IBNR reserves are estimated based on actuarial statistical projections of the expected cost of the ultimate settlement and administration of claims. The projections are based on available information at the time and include factors such as trends in claims frequency, severity and speed of settlement. IBNR reserves are reviewed and revised quarterly as additional information becomes available with the actual claims development.

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience. These uncertainties may arise from changes in the underlying risks, changes in the spread of risk, changes in the speed of reporting and settlement of claims as well as the suitability of the methodology used in the projection model and its underlying assumptions.

2.25.2 Valuation of life insurance contract liabilities

The valuation of life insurance contract liabilities is based on the Risk-Based Capital Framework for Insurers, issued by BNM.

The life insurance contract liability is valued using a prospective actuarial valuation based on the sum of the present value of future guaranteed benefits and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The expected future cash flow is determined using best estimate assumptions and with due regard to significant recent experience.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Significant accounting judgements, estimates and assumptions (continued)

2.25.2 Valuation of life insurance contract liabilities (continued)

An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies and non-unit actuarial liabilities of investment-linked policies.

For a 1-year life policy or a 1-year extension to a life policy covering contingencies other than death or survival, the premium and claim liabilities is valued separately at a probability of sufficiency level at 75%. Liability is calculated on the basis of the 1/24th method; applied to premiums, reduced by the percentage of accounted gross direct business commissions and agency-related expenses to corresponding premiums.

The risk-free discount rate is used for all cash flows to determine the liability of a non-participating life policy and the non-unit actuarial liability of an investment-linked policy. A discount rate based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund is used for all cash flows to determine the liability of participating policies.

Risk-free discount rate for durations of less than 15 years is zero-coupon spot yields of Malaysian Government Securities ("MGS") with matching duration. Risk-free discount rate for durations of 15 years or more is zero-coupon spot yields of MGS with 15 years term to maturity. Duration is the term to maturity of each future cash flow. The MGS zero-coupon spot yields are obtained from a recognised bond pricing agency in Malaysia.

2.26 Fair value measurement

From 1 January 2013, the Group and the Company adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

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

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT

Group	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress# RM'000	Total RM'000
Cost/Valuation									
At 1 January 2012		19,876	40,903	1,459	39,060	2,663	21,209	2,219	127,389
Additions		-	-	-	8,614	-	1,244	3,514	13,372
Disposals		-	-	-	(507)	-	-	(402)	(909)
Written off		-	-	-	(798)	-	(87)	(15)	(900)
Reclassification	4	-	-	-	2,776	-	894	(3,719)	(49)
Revaluation		730	18,652	-	-	-	-	-	19,382
At 31 December 2012/ 1 January 2013		20,606	59,555	1,459	49,145	2,663	23,260	1,597	158,285
Additions		-	-	-	10,704	244	1,459	7,053	19,460
Disposals		-	-	-	(11)	-	-	-	(11)
Written off		-	-	-	(298)	-	(12)	-	(310)
Reclassification	4	-	-	-	1,808	-	3,677	(6,778)	(1,293)
Revaluation		-	-	-	-	-	-	-	-
At 31 December 2013		20,606	59,555	1,459	61,348	2,907	28,384	1,872	176,131

* The carrying amounts of land and buildings are not segregated as the required information is not available.

\# Certain work-in-progress were reclassified as software development costs (intangible assets), see Note 4.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Depreciation									
At 1 January 2012		157	2,913	76	21,355	1,692	8,347	-	34,540
Depreciation for the year	28	202	1,364	17	7,804	316	2,476	-	12,179
Disposals		-	-	-	(330)	-	-	-	(330)
Written off		-	-	-	(711)	-	(87)	-	(798)
Offset of accumulated depreciation on revaluation		(26)	(48)	-	-	-	-	-	(74)
At 31 December 2012/ 1 January 2013		333	4,229	93	28,118	2,008	10,736	-	45,517
Depreciation for the year	28	190	1,537	17	8,327	364	2,954	-	13,389
Disposals		-	-	-	(8)	-	-	-	(8)
Written off		-	-	-	(287)	-	(7)	-	(294)
Offset of accumulated depreciation on revaluation		-	-	-	-	-	-	-	-
At 31 December 2013		523	5,766	110	36,150	2,372	13,683	-	58,604
Impairment									
At 1 January 2012/ 31 December 2012/ 1 January 2013/ 31 December 2013		-	(1,041)	-	-	-	-	-	(1,041)
Carrying amounts									
At 1 January 2012		19,719	36,949	1,383	17,705	971	12,862	2,219	91,808
At 31 December 2012/ 1 January 2013		20,273	54,285	1,366	21,027	655	12,524	1,597	111,727
At 31 December 2013		20,083	52,748	1,349	25,198	535	14,701	1,872	116,486

* The carrying amounts of land and buildings are not segregated as the required information is not available.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Note	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work-in-progress RM'000	Total RM'000
Cost						
At 1 January 2012		157	1,335	15	3	1,510
Additions		116	-	-	-	116
Written off		-	-	-	-	-
At 31 December 2012/ 1 January 2013		273	1,335	15	3	1,626
Additions		85	-	-	-	85
Written off		(2)	-	-	-	(2)
At 31 December 2013		356	1,335	15	3	1,709
Depreciation						
At 1 January 2012		26	806	6	-	838
Depreciation for the year	28	39	177	-	-	216
Written off		-	-	-	-	-
At 31 December 2012/ 1 January 2013		65	983	6	-	1,054
Depreciation for the year	28	55	176	-	-	231
Written off		(1)	-	-	-	(1)
At 31 December 2013		119	1,159	6	-	1,284
Carrying amounts						
At 1 January 2012		131	529	9	3	672
At 31 December 2012/ 1 January 2013		208	352	9	3	572
At 31 December 2013		237	176	9	3	425

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.1 Revaluation of properties

All the Group's land and buildings were revalued in October 2011, except for buildings of Bright Mission Berhad ("BMB") which was revalued in June 2012, by independent professional qualified valuers using the comparison method.

Had the land and buildings of the Group been carried under the cost model, their carrying amounts would have been as follows:

Group	2013 RM'000	2012 RM'000
Land	12,082	12,193
Buildings	27,801	29,102
Land and buildings	2,352	2,382
	42,235	43,677

3.2 Leased computers

At 31 December 2013, the net carrying amount of leased computers of the Group was RM29,000 (2012: RM53,000).

3.3 Land

Included in the carrying amounts of land are:

Group	2013 RM'000	2012 RM'000
Freehold land	6,789	6,789
Long term leasehold land with unexpired lease period of more than 50 years	13,294	13,484
	20,083	20,273

3.4 Fair value information

Fair value of land and buildings are categorised as follows:

	2013			
Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Land	-	20,083	-	20,083
Buildings	-	52,748	-	52,748
Land and buildings	-	1,349	-	1,349
	-	74,180	-	74,180

Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.4 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical land and buildings that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the land and buildings, either directly or indirectly.

Level 2 fair values of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable land and buildings.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the land and buildings.

Notes to the Financial Statements

4. INTANGIBLE ASSETS

Group	Note	Goodwill RM'000	Software development costs RM'000	Other intangible assets RM'000	Total RM'000
Cost					
At 1 January 2012		244,600	15,732	88,933	349,265
Additions		-	416	-	416
Reclassification	3	-	49	-	49
At 31 December 2012/1 January 2013		244,600	16,197	88,933	349,730
Additions		-	669	50,495	51,164
Reclassification	3	-	1,293	-	1,293
At 31 December 2013		244,600	18,159	139,428	402,187
Amortisation					
At 1 January 2012		-	11,715	38,536	50,251
Amortisation for the year	28	-	2,549	8,893	11,442
At 31 December 2012/1 January 2013		-	14,264	47,429	61,693
Amortisation for the year	28	-	1,224	13,942	15,166
At 31 December 2013		-	15,488	61,371	76,859
Carrying amounts					
At 1 January 2012		244,600	4,017	50,397	299,014
At 31 December 2012/1 January 2013		244,600	1,933	41,504	288,037
At 31 December 2013		244,600	2,671	78,057	325,328

4.1 Goodwill

The aggregate carrying amount of goodwill is attributable to the acquisition of the following subsidiaries:

Group	2013 RM'000	2012 RM'000
Allianz Life Insurance Malaysia Berhad ("ALIM")	4,990	4,990
Allianz General Insurance Company (Malaysia) Berhad ("AGIC")/ Bright Mission Berhad ("BMB")	239,610	239,610
	244,600	244,600

Notes to the Financial Statements

4. INTANGIBLE ASSETS (CONTINUED)

4.1 Goodwill (continued)

AGIC and BMB (formerly known as Commerce Assurance Berhad ("CAB")) entered into a Business Transfer Agreement dated 17 September 2008 ("BTA") to undertake a scheme of transfer under Part XI of the Insurance Act, 1996 as approved by BNM ("Scheme"), which involved the transfer and vesting by CAB to AGIC of CAB's entire general insurance business, undertaking of assets including CAB's liabilities and obligations save for the specified excluded assets and liabilities as detailed in the BTA. The Scheme was confirmed by the High Court of Malaya on 9 December 2008 and took effect on 1 January 2009. Consequently, the carrying amount of goodwill arising from the acquisition of CAB has now been allocated to the entire integrated general insurance business of the Group.

Impairment test for cash-generating unit ("CGU") containing goodwill

For goodwill attributable to the acquisition of CAB, following the Scheme on 1 January 2009, the carrying amount of goodwill has been allocated to the entire integrated general insurance business of the Group as one CGU, which represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The estimated recoverable amount is calculated based on the share of net assets as at 31 December 2013 and the projected future financial performance of the general insurance business.

For goodwill attributable to the acquisition of ALIM, the annual impairment test was done by comparing the estimated recoverable amount of ALIM with its carrying amount including the goodwill attributed. The recoverable amount is the value in use which is measured by the Embedded Value attributable to ALIM calculated by an appointed actuary. Embedded Value is the present value of future shareholders distributable profits after tax discounted at the shareholders' required rate of return, or the risk discount rate plus the Net Assets Value. The projected future cash flows are based on the best estimate of assumptions, either derived from the operating unit experience or industry experience.

The estimated recoverable amounts of both the CGUs were determined to be higher than their carrying amounts and thus no impairment loss was recognised.

4.2 Software development costs

The software development costs are in relation to internal development expenditures incurred for the Open Product Underwriting System ("OPUS") and Integrated Insurance Management System ("IIMS"). Both systems are integrated systems designed to improve the efficiency of the business activities of the subsidiaries. These software development costs are amortised over a period of five years.

4.3 Other intangible assets

The other intangibles assets are as follows:

Group	Note	2013 RM'000	2012 RM'000
Cost			
The Bancassurance Agreements:-			
- General insurance business	4.3.1	88,933	88,933
- Life insurance business	4.3.2	50,495	-
	4	139,428	88,933

Notes to the Financial Statements

4. INTANGIBLE ASSETS (CONTINUED)

4.3 Other intangible assets (continued)

4.3.1 The Bancassurance Agreement – General insurance business

The Bancassurance Agreement was entered between the Group's general insurance entity, AGIC and CIMB Bank Berhad and formed an integral part of the acquisition of BMB by the Company on 28 August 2007 from Commerce International Group Berhad ("CIG"). The Group's general insurance business is further enhanced through the leverage on CIMB Bank's customer base and nationwide network. The future economic benefits that are attributable to the Bancassurance Agreement was valued at the present value of projected future cash flows to be derived from the tenure of the agreement of ten years using the discounting cash flow model. The recognised intangible asset is amortised over its useful life of ten years.

The following key assumptions have been used in cash flow projections in respect of the Bancassurance Agreement:

Key assumptions	
Bancassurance premium growth rate	No projected premium growth for the remaining tenure
Discount rate	8.0%
Investment yield	2.9% – 3.5% per annum

4.3.2 The Bancassurance Agreement – Life insurance business

The intangible asset is in relation to the exclusive bancassurance agreement which provides the Group's life insurance entity with an exclusive right to the use of the bancassurance network of a licensed bank to sell market and promote conventional life product. The fee for this right is amortised over its useful life of 10 years using the straight-line method.

The following key assumptions have been used in cash flow projections in respect of the Bancassurance Agreement:

Key assumptions	
Bancassurance annualised new premium growth rate	9.0% – 29.0% per annum
Discount rate	8.0%

4.3.3 Sensitivity to changes in key assumptions

Management considers that it is not reasonably possible for the abovementioned key assumptions to change so significantly that would result in impairment.

5. DEFERRED ACQUISITIONS COSTS

Group	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2012		70,734	(21,067)	49,667
Movement during the year	26	12,481	(2,833)	9,648
At 31 December 2012/1 January 2013		83,215	(23,900)	59,315
Movement during the year	26	9,053	513	9,566
At 31 December 2013		92,268	(23,387)	68,881

Notes to the Financial Statements

6. INVESTMENT PROPERTIES

Group	Note	2013 RM'000	2012 RM'000
At 1 January		4,962	3,732
Change in fair value recognised in profit or loss	25	638	1,230
At 31 December		5,600	4,962

Group	2013 RM'000	2012 RM'000
Included in the above are:		
At fair value		
Freehold land	2,492	1,910
Long term leasehold land	538	672
Buildings	2,570	2,380
	5,600	4,962

The fair values of investment properties are determined by C H Williams Talhar & Wong Sdn Bhd and VPC Alliance Sdn Bhd, independent professional qualified valuers using the comparison method.

The following are recognised in the profit or loss in respect of investment properties:

Group	Note	2013 RM'000	2012 RM'000
Rental income	23	96	96
Direct operating expenses			
- income generating investment properties		(8)	(6)

6.1 Fair value information

Fair value of investment properties are categorised as follows:

	2013			
Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Freehold land	-	2,492	-	2,492
Long term leasehold land	-	538	-	538
Buildings	-	2,570	-	2,570
	-	5,600	-	5,600

Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

Notes to the Financial Statements

6. INVESTMENT PROPERTIES (CONTINUED)

6.1 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

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

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

Level 2 fair values of land and buildings have been generally derived using the sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the investment property.

7. INVESTMENTS IN SUBSIDIARIES

Company	2013 RM'000	2012 RM'000
At cost		
Unquoted shares:		
At 1 January/31 December	1,084,521	1,084,521

The principal activities of the subsidiaries, the place of incorporation and the interest of the Company are as follows:

Name of subsidiary	Principal activity	Country of incorporation	Effective ownership interest 2013 %	 2012 %
Allianz Life Insurance Malaysia Berhad ("ALIM")	Underwriting life insurance	Malaysia	100	100
Allianz General Insurance Company (Malaysia) Berhad ("AGIC")	Underwriting general insurance	Malaysia	100	100
Bright Mission Berhad ("BMB")	Investment holding	Malaysia	100	100

Notes to the Financial Statements

8. INVESTMENTS

Group	2013 RM'000	2012 RM'000
Malaysian government securities	2,779,520	2,371,325
Malaysian government guaranteed bonds	1,376,803	971,840
Ringgit denominated bonds by foreign issuers in Malaysia	221,427	327,502
Quoted equity securities of corporations in Malaysia	795,603	554,300
Quoted equity securities of corporations outside Malaysia	880	-
Unquoted equity securities of corporations in Malaysia	2,147	2,148
Unquoted bonds of corporations in Malaysia	2,113,550	1,890,807
Quoted unit trusts in Malaysia	52,797	84,025
Unquoted unit trusts in Malaysia	5,390	1,928
Unquoted unit trusts outside Malaysia	50,676	49,104
Structured deposits with licensed financial institutions	227,719	217,127
Malaysian government guaranteed loans	260,000	260,000
Mortgage loans	70	80
Policy loans	12,515	12,098
Automatic premium loans	73,239	61,920
Fixed and call deposits with:		
Licensed banks	25,073	23,568
	7,997,409	6,827,772

Financial investments are summarised by categories as follows:

Group	Note	Current 2013 RM'000	Current 2012 RM'000	Non-current 2013 RM'000	Non-current 2012 RM'000	Total 2013 RM'000	Total 2012 RM'000
Held-to-maturity financial assets ("HTM")	(a)	15,000	10,000	1,308,892	1,113,735	1,323,892	1,123,735
Available-for-sale financial assets ("AFS")	(b)	3,506,027	3,095,574	-	-	3,506,027	3,095,574
Loans and receivables ("LAR")	(c)	180,842	167,601	190,055	190,065	370,897	357,666
Fair value through profit or loss ("FVTPL")							
- Held for trading ("HFT")	(d)	917,651	547,550	-	-	917,651	547,550
- Designated upon initial recognition ("DUIR")	(e)	1,878,942	1,703,247	-	-	1,878,942	1,703,247
		6,498,462	5,523,972	1,498,947	1,303,800	7,997,409	6,827,772

Notes to the Financial Statements

8. INVESTMENTS (CONTINUED)

(a) Held-to-maturity financial assets

Group	Amortised cost 2013 RM'000	Fair value 2013 RM'000	Amortised cost 2012 RM'000	Fair value 2012 RM'000
Malaysian government securities	680,270	669,761	570,826	590,812
Malaysian government guaranteed bonds	543,837	522,711	443,189	464,204
Ringgit denominated bonds by foreign issuers in Malaysia	99,785	101,848	109,720	112,750
	1,323,892	1,294,320	1,123,735	1,167,766

(b) Available-for-sale financial assets

	Fair value	
Group	2013 RM'000	2012 RM'000
Malaysian government securities	1,429,453	1,227,948
Malaysian government guaranteed bonds	475,667	367,797
Ringgit denominated bonds by foreign issuers in Malaysia	54,033	149,511
Unquoted bonds of corporations in Malaysia	957,361	853,570
Quoted equity securities of corporations in Malaysia	415,481	317,557
Quoted unit trusts in Malaysia	48,659	77,251
Unquoted unit trusts in Malaysia	4,164	1,017
Unquoted unit trusts outside Malaysia	36,185	35,277
Structured deposits with licensed financial institutions	82,877	63,498
	3,503,880	3,093,426

	Cost	
Group	2013 RM'000	2012 RM'000
Unquoted equity securities of corporations in Malaysia	2,147	2,148
Total available-for-sale financial assets	3,506,027	3,095,574

Notes to the Financial Statements

8. INVESTMENTS (CONTINUED)

(c) Loans and receivables

Group	Amortised cost 2013 RM'000	Fair value 2013 RM'000	Amortised cost 2012 RM'000	Fair value 2012 RM'000
Malaysian government guaranteed loans	260,000	260,000	260,000	260,000
Mortgage loans	70	70	80	80
Policy loans	12,515	12,515	12,098	12,098
Automatic premium loans	73,239	73,239	61,920	61,920
Fixed and call deposits with:				
Licensed banks	25,073	25,073	23,568	23,568
	370,897	370,897	357,666	357,666

(d) FVTPL – Held for trading

Group	Fair value 2013 RM'000	Fair value 2012 RM'000
Malaysian government securities	161,721	73,438
Malaysian government guaranteed bonds	106,742	36,797
Ringgit denominated bonds by foreign issuers in Malaysia	5,193	5,273
Unquoted bonds of corporations in Malaysia	217,943	143,617
Quoted equity securities of corporations in Malaysia	380,122	236,743
Quoted equity securities of corporations outside Malaysia	880	-
Quoted unit trusts in Malaysia	4,138	6,774
Unquoted unit trusts in Malaysia	1,226	911
Unquoted unit trusts outside Malaysia	14,491	13,827
Structured deposits with licensed financial institutions	25,195	30,170
	917,651	547,550

(e) FVTPL - Designated upon initial recognition

Group	Fair value 2013 RM'000	Fair value 2012 RM'000
Malaysian government securities	508,076	499,113
Malaysian government guaranteed bonds	250,557	124,057
Ringgit denominated bonds by foreign issuers in Malaysia	62,416	62,998
Unquoted bonds of corporations in Malaysia	938,246	893,620
Structured deposits with licensed financial institutions	119,647	123,459
	1,878,942	1,703,247
Total fair value through profit or loss financial investments	2,796,593	2,250,797

Notes to the Financial Statements

8. INVESTMENTS (CONTINUED)

Carrying values of financial instruments

Group	Note	HTM RM'000	AFS RM'000	LAR RM'000	HFT RM'000	DUIR RM'000	Total RM'000
At 1 January 2012		791,776	2,505,483	337,179	353,652	1,603,807	5,591,897
Purchases/placements		368,635	1,220,913	11,937,388	425,400	370,966	14,323,302
Maturities		(37,000)	(185,000)	(11,916,901)	(20,000)	(148,760)	(12,307,661)
Disposals		-	(470,882)	-	(225,432)	(123,019)	(819,333)
Fair value gains/(losses) recorded in:							
• Profit or loss:							
- Unrealised gains/(losses)	25	-	-	-	13,698	(348)	13,350
- Unrealised foreign exchange gains		-	-	-	125	-	125
- Movement in impairment allowance	25	-	(8,889)	-	-	-	(8,889)
• Other comprehensive income	20.3	-	(1,727)	-	-	-	(1,727)
• Insurance contract liabilities	17(a)	-	41,384	-	-	-	41,384
Accretion of discounts		1,053	760	-	326	3,392	5,531
Amortisation of premiums		(729)	(6,468)	-	(219)	(2,791)	(10,207)
At 31 December 2012 / At 1 January 2013		1,123,735	3,095,574	357,666	547,550	1,703,247	6,827,772
Purchases/placements		209,920	1,200,355	12,327,372	569,961	493,375	14,800,983
Maturities		(10,000)	(296,500)	(12,314,141)	(9,500)	(92,028)	(12,722,169)
Disposals		-	(479,647)	-	(214,107)	(158,691)	(852,445)
Fair value gains/(losses) recorded in:							
• Profit or loss:							
- Unrealised gains/(losses)	25	-	-	-	26,092	(65,949)	(39,857)
- Unrealised foreign exchange losses		-	-	-	(2,552)	-	(2,552)
- Movement in impairment allowance	25	-	(4,497)	-	-	-	(4,497)
• Other comprehensive income	20.3	-	(42,937)	-	-	-	(42,937)
• Insurance contract liabilities	17(a)	-	37,727	-	-	-	37,727
Accretion of discounts		1,006	1,847	-	513	2,102	5,468
Amortisation of premiums		(769)	(5,895)	-	(306)	(3,114)	(10,084)
At 31 December 2013		1,323,892	3,506,027	370,897	917,651	1,878,942	7,997,409

Notes to the Financial Statements

8. INVESTMENTS (CONTINUED)

Company	2013 RM'000	2012 RM'000
Fixed and call deposits with:		
Licensed banks	19,916	10,500

Financial investments are summarised by category as follows:

	Current		Total	
Company	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Loans and receivables ("LAR")	19,916	10,500	19,916	10,500

Loans and receivables

Company	Amortised cost 2013 RM'000	Fair value 2013 RM'000	Amortised cost 2012 RM'000	Fair value 2012 RM'000
Fixed and call deposits with:				
Licensed banks	19,916	19,916	10,500	10,500

Carrying values of financial instruments

Company	LAR RM'000	Total RM'000
At 1 January 2012	-	-
Placements	10,500	10,500
At 31 December 2012/ 1 January 2013	10,500	10,500
Placements	9,416	9,416
At 31 December 2013	19,916	19,916

9. INSURANCE RECEIVABLES

Group	Note	2013 RM'000	2012 RM'000
Current			
Due premiums including agents, brokers and co-insurers balances		144,338	122,734
Due from reinsurers and cedants		35,097	31,959
Due from holding company	9.1	20	-
Due from related companies	9.2	1,776	9,373
Group claims receivables		1,167	1,034
		182,398	165,100
Less: Allowance for impairment	39.1(ii)	(19,357)	(20,531)
		163,041	144,569

Notes to the Financial Statements

9. INSURANCE RECEIVABLES (CONTINUED)

9.1 Amounts due from holding company

The amounts due from holding company are unsecured.

9.2 Amounts due from related companies

The amounts due from related companies are unsecured.

10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Group	Note	2013 RM'000	2012 RM'000
Non-current			
Other receivables			
Other receivables, deposits and prepayments		6,664	7,523
Malaysian Institute of Insurance ("MII") bonds		590	590
		7,254	8,113
Staff loans			
Mortgage loans		3,348	3,487
Other secured loans		549	537
		3,897	4,024
		11,151	12,137
Current			
Other receivables			
Other receivables, deposits and prepayments		75,250	30,661
Sundry deposits		647	662
Less: Allowance for impairment	39.1(ii)	(3,906)	(4,043)
		71,991	27,280
Income due and accrued		75,779	63,852
Due from holding company	10.1	17	711
Due from related companies	10.2	2,207	775
Due from inter-fund	14	13,473	10,894
		163,467	103,512
Staff loans			
Mortgage loans		488	505
Other secured loans		263	219
		751	724
		164,218	104,236
Total		175,369	116,373

Notes to the Financial Statements

10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

10.1 Amounts due from holding company

The amounts due from holding company are unsecured, interest free and repayable on demand.

10.2 Amounts due from related companies

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

Company	Note	2013 RM'000	2012 RM'000
Non-current			
Other receivables			
Other receivables, deposits and prepayments		305	304
Staff loans			
Mortgage loans		746	690
Other secured loans		63	24
		809	714
		1,114	1,018
Current			
Other receivables			
Other receivables, deposits and prepayments		753	741
Income due and accrued		181	159
Due from subsidiaries	10.3	3,101	1,644
		4,035	2,544
Staff loans			
Mortgage loans		84	82
Other secured loans		17	8
		101	90
		4,136	2,634
Total		5,250	3,652

10.3 Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

11. REINSURANCE ASSETS

Group	Note	2013 RM'000	2012 RM'000
Non-current			
Reinsurance of insurance contracts			
General insurance claims liabilities		477,376	491,378
Life insurance actuarial liabilities		77,440	79,819
		554,816	571,197
Current			
Reinsurance of insurance contracts			
General insurance claims liabilities		376,283	381,189
General insurance premium liabilities		335,505	211,368
Life insurance actuarial liabilities		100	6,717
		711,888	599,274
Total	17	1,266,704	1,170,471

12. BENEFITS AND CLAIMS LIABILITIES

Group	2013 RM'000	2012 RM'000
Current		
Gross benefits and claims liabilities	131,250	96,928
Less: Recoverable from reinsurers	(13,392)	(12,115)
Net benefits and claims liabilities	117,858	84,813

13. INSURANCE PAYABLES

Group	Note	2013 RM'000	2012 RM'000
Non-current			
Performance bond deposits	13.1	18,489	20,467
Current			
Due to reinsurers and cedants		107,995	99,690
Due to agents, brokers, co-insurers and insurers		135,400	129,482
Due to holding company	13.2	-	82
Due to related companies	13.2	27,453	36,628
Performance bond deposits	13.1	47,896	42,584
		318,744	308,466
Total		337,233	328,933

Notes to the Financial Statements

13. INSURANCE PAYABLES (CONTINUED)

13.1 Performance bond deposits

Performance bond deposits are collateral deposits received from policyholders for guarantees issued on behalf of policyholders.

13.2 Amounts due to holding company and related companies

The amounts due to holding company and related companies are unsecured.

14. OTHER PAYABLES AND ACCRUALS

Group	Note	2013 RM'000	2012 RM'000
Non-current			
Other payables and accrued expenses	14.1	51,776	57,814
Finance lease liabilities	14.2	2	21
Due to holding company	14.4	54,300	-
		106,078	57,835
Current			
Other payables and accrued expenses	14.1	232,145	173,783
Finance lease liabilities	14.2	19	43
Due to inter-fund	10	13,473	10,894
Due to related companies	14.3	67	-
		245,704	184,720
Total		351,782	242,555

Company	Note	2013 RM'000	2012 RM'000
Non-current			
Due to holding company	14.4	54,300	-
Current			
Other payables and accrued expenses		3,056	1,883
Due to a subsidiary	14.3	133,205	133,205
		136,261	135,088
Total		190,561	135,088

14.1 Other payables and accrued expenses

Included in other payables and accrued expenses of the Group is an amount of RM70,509,000 (2012: RM76,886,000) relating to premium received in advance and RM19,758,000 (2012: RM15,600,000) relating to premium deposits.

Notes to the Financial Statements

14. OTHER PAYABLES AND ACCRUALS (CONTINUED)

14.2 Finance lease liabilities

Group	Minimum lease payments 2013 RM'000	Interest 2013 RM'000	Principal 2013 RM'000
Less than one year	20	1	19
Between one and five years	2	-	2
	22	1	21

Group	Minimum lease payments 2012 RM'000	Interest 2012 RM'000	Principal 2012 RM'000
Less than one year	46	3	43
Between one and five years	22	1	21
	68	4	64

14.3 Amounts due to subsidiary and related companies

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

14.4 Advance from holding company – Group and Company

Advance from Allianz SE

The Company has on 27 December 2012 entered into an advance agreement ("Advance Agreement") with its holding company, Allianz SE, for a 5-year term loan facility of up to the principal amount of Euro equivalent of RM54.3 million to be made available by Allianz SE to the Company ("Advance"), upon the terms and conditions as stipulated in the Advance Agreement. The term loan is unsecured and subject to interest at 4.3% per annum and repayable in 2018.

The Advance will be utilised by the Company for general working capital purposes and to finance the business expansion of its life insurance subsidiary.

15. SUBORDINATED LOAN

15.1 Subordinated loan to subsidiary company – Company

Subordinated loan to Allianz Life Insurance Malaysia Berhad ("ALIM")

The Company has on 7 January 2013, entered into a facility agreement ("Facility Agreement") with ALIM to make available to ALIM, a subordinated loan of up to the aggregate principal amount of RM73.0 million only ("Facility") upon the terms and conditions as stipulated in the Facility Agreement. The subordinated loan is subject to interest at 4.5% per annum and repayable in 2023.

The proceeds from the Facility is utilised by ALIM as subordinated loan for general working capital purposes including business expansion.

Notes to the Financial Statements

15. SUBORDINATED LOAN (CONTINUED)

15.1 Subordinated loan to subsidiary company – Company (continued)

Subordinated loan to Allianz Life Insurance Malaysia Berhad ("ALIM") (continued)

Company	Note	2013 RM'000	2012 RM'000
Non-current			
Subordinated loan to a subsidiary	15.1	54,300	-

16. DEFERRED TAX ASSETS AND LIABILITIES

16.1 Recognised deferred tax assets/(liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Group						
Property, plant and equipment	260	260	(15,333)	(13,807)	(15,073)	(13,547)
Intangible assets	-	-	(369)	(464)	(369)	(464)
Provisions	19,887	17,167	-	-	19,887	17,167
Available-for-sale fair value reserve	3,861	-	(8,232)	(12,105)	(4,371)	(12,105)
Fair value movement recognised in profit or loss	-	-	(1,771)	(7,004)	(1,771)	(7,004)
Unallocated surplus	-	-	(107,387)	(93,140)	(107,387)	(93,140)
Net accretion/(amortisation)	-	201	(13)	-	(13)	201
Tax assets/(liabilities)	24,008	17,628	(133,105)	(126,520)	(109,097)	(108,892)
Set off	(5,926)	(11,373)	5,926	11,373	-	-
Net tax assets/(liabilities)	18,082	6,255	(127,179)	(115,147)	(109,097)	(108,892)
Company						
Property, plant and equipment	-	-	(25)	(40)	(25)	(40)
Net tax liabilities	-	-	(25)	(40)	(25)	(40)

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 they relate to income taxes levied by the same tax authority on the same taxable entity.

Notes to the Financial Statements

16. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

16.2 Movement in temporary differences during the year:

Group	At 1.1.2012 RM'000	Recognised in profit or loss (Note 29.1) RM'000	Recognised in other comprehensive income (Note 29.2) RM'000	Recognised in insurance contract liabilities (Note 29.3) RM'000	At 31.12.2012 /1.1.2013 RM'000	Recognised in profit or loss (Note 29.1) RM'000	Recognised in other comprehensive income (Note 29.2) RM'000	Recognised in insurance contract liabilities (Note 29.3) RM'000	At 31.12.2013 RM'000
Property, plant and equipment	(7,607)	(1,077)	(4,863)	-	(13,547)	(1,526)	-	-	(15,073)
Intangible assets	(973)	509	-	-	(464)	95	-	-	(369)
Provisions	9,632	7,535	-	-	17,167	2,720	-	-	19,887
Available-for-sale fair value reserve	(9,254)	42	418	(3,311)	(12,105)	-	10,752	(3,018)	(4,371)
Fair value movement recognised in profit or loss	(5,121)	(1,883)	-	-	(7,004)	5,233	-	-	(1,771)
Unallocated surplus	(81,402)	(11,738)	-	-	(93,140)	(14,247)	-	-	(107,387)
Net accretion/(amortisation)	-	201	-	-	201	(214)	-	-	(13)
	(94,725)	(6,411)	(4,445)	(3,311)	(108,892)	(7,939)	10,752	(3,018)	(109,097)
Company									
Property, plant and equipment	(29)	(11)	-	-	(40)	15	-	-	(25)

Notes to the Financial Statements

17. INSURANCE CONTRACT LIABILITIES

		2013			2012		
Group	Note	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Life insurance	(a)	4,667,930	(77,540)	4,590,390	3,880,653	(86,536)	3,794,117
General insurance	(b)	3,102,183	(1,189,164)	1,913,019	2,682,342	(1,083,935)	1,598,407
		7,770,113	(1,266,704)	6,503,409	6,562,995	(1,170,471)	5,392,524
			Note 11			Note 11	

(a) Life insurance

Life insurance contract liabilities consist of:

		2013			2012		
Group	Note	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Actuarial liabilities		3,956,026	(77,540)	3,878,486	3,239,571	(86,536)	3,153,035
Unallocated surplus		67,830	-	67,830	175,000	-	175,000
Available-for-sale fair value reserve		99,797	-	99,797	65,088	-	65,088
Net assets value attributable to unitholders	34	542,496	-	542,496	399,213	-	399,213
Revaluation reserve		1,781	-	1,781	1,781	-	1,781
		4,667,930	(77,540)	4,590,390	3,880,653	(86,536)	3,794,117

Notes to the Financial Statements

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Life insurance (continued)

	Gross			Reinsurance			
Group	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net RM'000
At 1 January 2012	2,141,185	1,023,557	3,164,742	(2,474)	(80,552)	(83,026)	3,081,716
Premiums received (Note 22)	482,118	827,451	1,309,569	(8,802)	(66,048)	(74,850)	1,234,719
Liabilities paid for death, maturities, surrenders, benefits and claims (Note 27)	(96,615)	(284,705)	(381,320)	6,814	60,095	66,909	(314,411)
Benefits and claims experience variation	(1,800)	(31,090)	(32,890)	1,379	2,267	3,646	(29,244)
Fees deducted	(78,282)	(319,103)	(397,385)	650	4,100	4,750	(392,635)
Expected interest on reserve/net investment income attributable to Universal Life Fund	119,489	28,147	147,636	(125)	(2,323)	(2,448)	145,188
Adjustments due to changes in assumptions	16,450	12,890	29,340	-	(1,517)	(1,517)	27,823
Net asset value attributable to unitholders (Note 34)	-	32,985	32,985	-	-	-	32,985
Available-for-sale fair value reserve (Note 8)	41,384	-	41,384	-	-	-	41,384
Unallocated surplus	(30,097)	-	(30,097)	-	-	-	(30,097)
Deferred tax effect: (Note 29.3)							
- Available-for-sale fair value reserve	(3,311)	-	(3,311)	-	-	-	(3,311)
At 31 December 2012	2,590,521	1,290,132	3,880,653	(2,558)	(83,978)	(86,536)	3,794,117

Notes to the Financial Statements

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Life insurance (continued)

Group	Gross With DPF RM'000	Gross Without DPF RM'000	Gross Total RM'000	Reinsurance With DPF RM'000	Reinsurance Without DPF RM'000	Reinsurance Total RM'000	Net RM'000
At 1 January 2013	2,590,521	1,290,132	3,880,653	(2,558)	(83,978)	(86,536)	3,794,117
Premiums received (Note 22)	465,933	1,133,872	1,599,805	(9,502)	(91,646)	(101,148)	1,498,657
Liabilities paid for death, maturities, surrenders, benefits and claims (Note 27)	(121,037)	(356,946)	(477,983)	7,917	75,604	83,521	(394,462)
Benefits and claims experience variation	2,862	(39,049)	(36,187)	703	18,473	19,176	(17,011)
Fees deducted	(61,133)	(388,073)	(449,206)	1,012	5,830	6,842	(442,364)
Expected interest on reserve/ net investment income attributable to Universal Life Fund	111,870	35,539	147,409	(129)	(2,502)	(2,631)	144,778
Adjustments due to changes in assumptions	61,858	(41,791)	20,067	2,557	679	3,236	23,303
Net asset value attributable to unitholders (Note 34)	-	55,833	55,833	-	-	-	55,833
Available-for-sale fair value reserve (Note 8)	37,727	-	37,727	-	-	-	37,727
Unallocated surplus	(107,170)	-	(107,170)	-	-	-	(107,170)
Deferred tax effect: (Note 29.3)							
- Available-for-sale fair value reserve	(3,018)	-	(3,018)	-	-	-	(3,018)
At 31 December 2013	2,978,413	1,689,517	4,667,930	-	(77,540)	(77,540)	4,590,390

Notes to the Financial Statements

17. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) General insurance

General insurance contract liabilities consist of:

Group	Note	2013 Gross RM'000	2013 Reinsurance RM'000	2013 Net RM'000	2012 Gross RM'000	2012 Reinsurance RM'000	2012 Net RM'000
Provision for claims reported by policyholders		1,564,159	(653,973)	910,186	1,420,276	(664,510)	755,766
Provision for incurred but not reported claims ("IBNR")		528,933	(199,685)	329,248	501,178	(208,057)	293,121
Provision for outstanding claims	17.1	2,093,092	(853,658)	1,239,434	1,921,454	(872,567)	1,048,887
Provision for unearned premiums	17.2	1,009,091	(335,506)	673,585	760,888	(211,368)	549,520
		3,102,183	(1,189,164)	1,913,019	2,682,342	(1,083,935)	1,598,407

17.1 Provision for outstanding claims

Group	Note	2013 Gross RM'000	2013 Reinsurance RM'000	2013 Net RM'000	2012 Gross RM'000	2012 Reinsurance RM'000	2012 Net RM'000
At 1 January		1,921,454	(872,567)	1,048,887	1,810,799	(886,389)	924,410
Claims incurred in the current accident year		1,148,400	(272,749)	875,651	947,235	(272,218)	675,017
Other movements in claims incurred in prior accident years		(181,327)	121,303	(60,024)	(117,002)	87,593	(29,409)
Claims paid during the year	27	(795,435)	170,355	(625,080)	(719,578)	198,447	(521,131)
At 31 December		2,093,092	(853,658)	1,239,434	1,921,454	(872,567)	1,048,887

17.2 Provision for unearned premiums

Group	Note	2013 Gross RM'000	2013 Reinsurance RM'000	2013 Net RM'000	2012 Gross RM'000	2012 Reinsurance RM'000	2012 Net RM'000
At 1 January		760,888	(211,368)	549,520	652,699	(184,736)	467,963
Premiums written during the year	22	1,978,653	(498,832)	1,479,821	1,673,949	(504,465)	1,169,484
Premiums earned during the year		(1,730,450)	374,694	(1,355,756)	(1,565,760)	477,833	(1,087,927)
At 31 December		1,009,091	(335,506)	673,585	760,888	(211,368)	549,520

Notes to the Financial Statements

18. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

Group	Nominal value RM'000	Assets RM'000	Liabilities RM'000
2013			
Derivative held for trading at fair value through profit or loss:			
Forward starting interest rate swap	400,000	-	(20,950)
2012			
Derivative held for trading at fair value through profit or loss:			
Forward starting interest rate swap	200,000	8,946	-

19. SHARE CAPITAL

	2013		2012	
Group and Company	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Authorised:				
Ordinary shares of RM1 each				
As at 1 January/31 December	600,000	600,000	600,000	600,000
Irredeemable convertible preference shares ("ICPS") of RM1 each				
As at 1 January/31 December	400,000	400,000	400,000	400,000
Issued and paid-up shares classified as equity instruments:				
Ordinary shares of RM1 each				
As at 1 January	158,636	158,636	156,428	156,428
Issued during the year	2,116	2,116	2,208	2,208
As at 31 December	160,752	160,752	158,636	158,636
Irredeemable convertible preference shares of RM1 each				
As at 1 January	187,570	187,570	189,778	189,778
Conversion during the year	(2,116)	(2,116)	(2,208)	(2,208)
As at 31 December	185,454	185,454	187,570	187,570

During the financial year, the Group and the Company issued 2,115,800 (2012: 2,207,875) ordinary shares of RM1 each at par via conversion of ICPS of RM1 each.

Notes to the Financial Statements

20. RESERVES

Group	Note	2013 RM'000	2012 RM'000
Share premium	20.1	424,823	424,823
Revaluation reserve	20.2	25,122	25,122
Fair value reserve	20.3	(12,838)	19,347
Life non participating fund surplus		322,160	279,420
Retained earnings	20.4	918,709	745,868
		1,677,976	1,494,580
Company			
Share premium	20.1	424,823	424,823
Retained earnings		217,424	200,598
		642,247	625,421

20.1 Share premium

Group and Company	2013 RM'000	2012 RM'000
At 1 January/31 December	424,823	424,823

20.2 Revaluation reserve

The revaluation reserve relates to the revaluation of owner occupied properties for the general business and shareholders' fund.

Owner occupied properties are stated at valuation based on revaluation conducted by independent professional qualified valuers using the comparison method.

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	25,122	10,529	-	-
Revaluation of land and buildings	-	19,456	-	-
Effect of tax	-	(4,863)	-	-
At 31 December	25,122	25,122	-	-

Notes to the Financial Statements

20. RESERVES (CONTINUED)

20.3 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Group	Note	2013 RM'000	2012 RM'000
Fair value reserve			
At 1 January		19,347	20,656
Net loss arising during the year	8	(42,937)	(1,727)
Effect of tax		10,752	418
At 31 December		(12,838)	19,347

20.4 Retained earnings

Section 108 tax credit

The Section 108 tax credit expired on 31 December 2013. As such, the Company will distribute single tier dividends to its shareholders out of its retained earnings if dividends were paid.

Restriction on payment of dividends

Pursuant to the RBC Framework for Insurers, the insurance subsidiaries of the Group ("Insurance Subsidiaries") shall not pay dividends if the Capital Adequacy Ratio position of the Insurance Subsidiaries is less than Insurance Subsidiaries' internal target capital level or if the payment of dividends would impair Insurance Subsidiaries' Capital Adequacy Ratio position to below Insurance Subsidiaries' internal target.

Pursuant to Section 110(1) of the FSA, the Company will be applying to Bank Negara Malaysia to be the Financial Holding Company of Allianz Malaysia Berhad. Upon approval by Bank Negara Malaysia, pursuant to Section 51(1) of the FSA, the Company and its insurance subsidiaries are required to obtain written approval prior to declaring or paying any dividend on its shares with effect from financial year beginning on 1 January 2014.

21. OPERATING REVENUE

Group	Note	2013 RM'000	2012 RM'000
Gross earned premiums	22(a)	3,330,255	2,875,329
Investment income	23	319,134	272,270
		3,649,389	3,147,599
Company			
Investment income	23	44,656	1,838

Notes to the Financial Statements

22. NET EARNED PREMIUMS

Group	Note	2013 RM'000	2012 RM'000
(a) Gross premiums			
Insurance contracts:			
Life	17(a)	1,599,805	1,309,569
General	17.2	1,978,653	1,673,949
		3,578,458	2,983,518
Change in unearned premiums provision			
Life		-	-
General		(248,203)	(108,189)
Gross earned premiums		3,330,255	2,875,329
(b) Premiums ceded			
Insurance contracts:			
Life	17(a)	(101,148)	(74,850)
General	17.2	(498,832)	(504,465)
		(599,980)	(579,315)
Change in unearned premiums provision			
Life		-	-
General		124,138	26,632
Premiums ceded to reinsurers		(475,842)	(552,683)
Net earned premiums		2,854,413	2,322,646

Notes to the Financial Statements

23. INVESTMENT INCOME

Group	Note	2013 RM'000	2012 RM'000
Rental of premises from:			
- investment properties	6	96	96
- owner occupied properties		56	56
Fair value through profit or loss - Held for trading financial assets			
Coupon income from:			
- Malaysian government securities		3,723	1,785
- Malaysian government guaranteed bonds		2,747	1,174
- Ringgit denominated bonds by foreign issuers in Malaysia		246	246
- Unquoted bonds of corporations in Malaysia		8,025	5,046
Dividend income from:			
- Quoted equity securities of corporations in Malaysia		11,485	6,916
- Quoted unit trusts in Malaysia		225	1,436
Interest income from/(to) licensed financial institutions:			
- Structured deposits		1,576	1,736
- Collateralised forward starting interest rate swap		(7)	(138)
Accretion of discounts on:			
- Malaysian government securities		67	39
- Malaysian government guaranteed bonds		145	-
- Unquoted bonds of corporations in Malaysia		18	2
- Structured deposits		283	285
Amortisation of premiums on:			
- Malaysian government securities		(79)	(80)
- Malaysian government guaranteed bonds		(24)	(12)
- Unquoted bonds of corporations in Malaysia		(203)	(127)

Notes to the Financial Statements

23. INVESTMENT INCOME (CONTINUED)

Group	2013 RM'000	2012 RM'000
Available-for-sale financial assets		
Coupon income from:		
- Malaysian government securities	50,577	45,111
- Malaysian government guaranteed bonds	15,445	13,025
- Ringgit denominated bonds by foreign issuers in Malaysia	2,871	6,351
- Unquoted bonds of corporations in Malaysia	39,987	31,932
Dividend income from:		
- Quoted equity securities of corporations in Malaysia	11,947	8,895
- Quoted unit trusts in Malaysia	3,190	3,602
- Unquoted unit trusts in Malaysia	-	13
Accretion of discounts on:		
- Malaysian government securities	7	654
- Malaysian government guaranteed bonds	1,816	102
- Ringgit denominated bonds by foreign issuers in Malaysia	24	4
Amortisation of premiums on:		
- Malaysian government securities	(5,135)	(6,244)
- Malaysian government guaranteed bonds	(38)	(16)
- Unquoted bonds of corporations in Malaysia	(722)	(208)
Interest income from licensed financial institutions:		
- Structured deposits	2,915	2,593

Notes to the Financial Statements

23. INVESTMENT INCOME (CONTINUED)

Group	2013 RM'000	2012 RM'000
Held-to-maturity financial assets		
Coupon income from:		
- Malaysian government securities	25,345	21,894
- Malaysian government guaranteed bonds	22,070	16,824
- Ringgit denominated bonds by foreign issuers in Malaysia	4,488	4,846
Accretion of discounts on:		
- Malaysian government securities	411	482
- Malaysian government guaranteed bonds	530	512
- Ringgit denominated bonds by foreign issuers in Malaysia	65	59
Amortisation of premiums on:		
- Malaysian government securities	(662)	(616)
- Malaysian government guaranteed bonds	(107)	(113)
Fair value through profit or loss - Designated upon initial recognition financial assets		
Coupon income from:		
- Malaysian government securities	21,247	20,221
- Malaysian government guaranteed bonds	8,362	4,033
- Ringgit denominated bonds by foreign issuers in Malaysia	2,795	2,789
- Unquoted bonds of corporations in Malaysia	44,923	39,548
Interest income from licensed financial institutions:		
- Structured deposits	4,645	4,656
Accretion of discounts on:		
- Malaysian government securities	145	411
- Malaysian government guaranteed bonds	351	238
- Ringgit denominated bonds by foreign issuers in Malaysia	6	6
- Unquoted bonds of corporations in Malaysia	455	1,621
- Structured deposits	1,145	1,116
Amortisation of premiums on:		
- Malaysian government securities	(1,758)	(1,874)
- Malaysian government guaranteed bonds	(65)	(23)
- Unquoted bonds of corporations in Malaysia	(1,291)	(894)

Notes to the Financial Statements

23. INVESTMENT INCOME (CONTINUED)

Group	2013 RM'000	2012 RM'000
Loans and receivables		
Interest income from:		
- Malaysian government guaranteed loans	11,488	11,553
- Mortgage loans	5	6
- Policy loans	924	833
- Automatic premium loans	5,173	4,304
Interest income from licensed financial institutions:		
- Fixed and call deposits	10,667	10,448
- Bank balances	6,514	5,116
	319,134	272,270
Company		
Loans and receivables		
Interest income from licensed banks:		
- Fixed and call deposits	726	564
Interest income on subordinated loan	2,403	1,274
Dividend income from subsidiaries	41,527	-
	44,656	1,838

24. REALISED GAINS AND LOSSES

Group	2013 RM'000	2012 RM'000
Property, plant and equipment		
Realised gains on disposal	-	26
Financial assets		
Realised gains on disposal:		
- Quoted equity securities of corporations in Malaysia	57,819	30,195
- Quoted equity securities of corporations outside Malaysia	4	-
- Malaysian government securities	5,699	4,861
- Quoted unit trusts in Malaysia	6,956	4,084
- Unquoted unit trusts in Malaysia	-	114
- Unquoted unit trusts outside Malaysia	73	-
- Unquoted bonds of corporations in Malaysia	2,583	5,565
- Unquoted debts securities in Malaysia	-	1,049
- Structured deposits	-	1,763

Notes to the Financial Statements

24. REALISED GAINS AND LOSSES (CONTINUED)

Group	2013 RM'000	2012 RM'000
Realised losses on disposal:		
- Malaysian government securities	(183)	-
- Quoted equity securities of corporations in Malaysia	(4,158)	-
- Quoted equity securities of corporations outside Malaysia	(68)	-
- Unquoted unit trusts outside Malaysia	(1,144)	(1,259)
- Structured deposits	(3)	-
- Put options	(3,574)	(1,450)
Total realised gains for financial assets	64,004	44,922
Total net realised gains	64,004	44,948

25. FAIR VALUE GAINS AND LOSSES

Group	Note	2013 RM'000	2012 RM'000
Investment properties	6	638	1,230
Held for trading financial assets	8	26,092	13,698
Designated upon initial recognition financial assets	8	(65,949)	(348)
Derivatives		(29,141)	7,196
Total fair value (losses)/gains on financial assets at FVTPL		(68,998)	20,546
Impairment loss on AFS financial investments	8	(4,497)	(8,889)
Total fair value (losses)/gains on financial assets		(72,857)	12,887

26. FEE AND COMMISSION

(a) Fee and commission income

Group	Note	2013 RM'000	2012 RM'000
Service charges		20,161	21,064
Deferred acquisition costs	5	513	(2,833)
Reinsurance commission income		73,510	85,456
Total fee and commission income		94,184	103,687

Notes to the Financial Statements

26. FEE AND COMMISSION (CONTINUED)

(b) Fee and commission expense

Group	Note	2013 RM'000	2012 RM'000
Gross direct commission		544,471	492,123
Deferred acquisition costs	5	(9,053)	(12,481)
Total fee and commission expense		535,418	479,642

27. NET BENEFITS AND CLAIMS

Group	Note	2013 RM'000	2012 RM'000
(a) Gross benefits and claims paid			
Insurance contracts:			
Life	17(a)	(477,983)	(381,320)
General	17.1	(795,435)	(719,578)
		(1,273,418)	(1,100,898)
(b) Claims ceded to reinsurers			
Insurance contracts:			
Life	17(a)	83,521	66,909
General	17.1	170,355	198,447
		253,876	265,356
(c) Gross change in contract liabilities			
Insurance contracts:			
Life		(752,568)	(677,838)
General		(171,638)	(110,655)
		(924,206)	(788,493)
(d) Change in contract liabilities ceded to reinsurers			
Insurance contracts:			
Life		(8,996)	3,510
General		(18,909)	(13,822)
		(27,905)	(10,312)
Net benefits and claims		(1,971,653)	(1,634,347)

Notes to the Financial Statements

28. MANAGEMENT EXPENSES

Group	Note	2013 RM'000	2012 RM'000
Advertising and marketing expenses		28,098	12,968
Amortisation of intangible assets	4	15,166	11,442
Auditors' remuneration:			
- statutory audits, KPMG Malaysia		680	666
- other services		10	10
Insurance and other receivables:			
- impairment loss recovered		(194)	(373)
- impairment loss written off		1,055	982
- reversal of allowance for impairment loss		(1,311)	(1,210)
Bank charges		10,735	9,451
Depreciation of property, plant and equipment	3	13,389	12,179
Non-executive directors' fee and other emoluments	28.2	3,003	2,441
Employee benefits	28.1	202,357	178,935
Rental of office equipment		163	192
Rental of premises to third party		8,597	7,045
Other expenses		118,276	103,654
		400,024	338,382
Company			
Advertising and marketing expenses		2	4
Auditors' remuneration:			
- statutory audits, KPMG Malaysia		125	125
- other services		10	10
Bank charges		2	2
Depreciation of property, plant and equipment	3	231	216
Non-executive directors' fee and other emoluments	28.2	431	402
Employee benefits	28.1	1,291	1,930
Rental of premises to third party		9	9
Other expenses		462	163
		2,563	2,861

Notes to the Financial Statements

28. MANAGEMENT EXPENSES (CONTINUED)

28.1 Employee benefits

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Wages and salaries	159,217	138,676	1,130	1,641
Social security contributions	1,030	942	3	11
Contributions to Employees' Provident Fund	21,190	19,739	95	177
Other benefits	20,920	19,578	63	101
	202,357	178,935	1,291	1,930

28.2 Key management personnel compensation

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Executive directors:				
Salaries and other emoluments	1,409	963	193	147
Bonus	947	1,099	135	147
Contribution to Employees' Provident Fund	13	13	13	13
Estimated monetary value of benefits-in-kind	297	461	32	48
	2,666	2,536	373	355
Non-executive directors#:				
Fees	1,037	1,032	318	318
Other emoluments	1,966	1,409	113	84
Estimated monetary value of benefits-in-kind	54	53	-	-
	3,057	2,494	431	402
Other key management personnel*				
Short term employee benefits	8,007	7,297	-	-

There is 1 non-executive director (2012: Nil non-executive director) not receiving remuneration from the Group and the Company during the financial year.

* Other key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company either directly or indirectly.

Notes to the Financial Statements

28. MANAGEMENT EXPENSES (CONTINUED)

28.2 Key management personnel compensation (continued)

The number of executive and non-executive directors whose total remuneration and other emoluments received during the year falls within the following bands is:

	Number of directors			
	Group		Company	
	2013	2012	2013	2012
Executive directors:				
Below RM1,000,000	1	1	2	2
RM1,000,000 and above	1	1	-	-
Non-executive directors:				
Below RM100,000	1	1	2	4
RM100,001 – RM200,000	-	-	4	1
RM200,001 – RM300,000	1	1	-	-
RM300,001 – RM400,000	2	1	-	-
RM400,001 – RM500,000	-	-	-	-
RM500,001 – RM600,000	-	-	-	-
RM600,001 – RM700,000	-	1	-	-
RM700,001 – RM800,000	1	-	-	-
RM800,001 – RM900,000	-	-	-	-
RM900,001 – RM1,000,000	-	1	-	-
Above RM1,000,001	1	-	-	-

28.3 Chief executive officers remuneration

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Salaries and other emoluments	1,917	1,421	135	91
Bonus	1,601	1,388	90	106
Contribution to Employees' Provident Fund	164	109	-	-
Estimated monetary value of benefits-in-kind	313	477	30	45
	3,995	3,395	255	242
Amount included in employee benefit expenses	3,682	2,918	225	197

Notes to the Financial Statements

29. TAX EXPENSE/(CREDIT)

29.1 Recognised in the profit or loss

		Group		Company	
		2013	2012	2013	2012
	Note	RM'000	RM'000	RM'000	RM'000
Current tax expense					
Current year		98,400	85,287	736	23
Double taxation relief		(4,497)	-	-	-
Over provision in prior years		(532)	(1,524)	(247)	(520)
		93,371	83,763	489	(497)
Deferred tax expense					
Origination and reversal of temporary differences		7,867	9,026	(15)	11
Under/(Over) provision in prior years		72	(2,615)	-	-
	16.2	7,939	6,411	(15)	11
Tax expense/(credit)		101,310	90,174	474	(486)

29.2 Recognised directly in other comprehensive income

	2013	2012
Group	RM'000	RM'000
Fair value reserve		
At 1 January	6,443	6,861
Net loss arising from change in fair value	(10,752)	(418)
At 31 December	(4,309)	6,443
Revaluation reserve		
At 1 January	5,965	1,102
Net gain arising from change in fair value	-	4,863
At 31 December	5,965	5,965

Notes to the Financial Statements

29. TAX EXPENSE/(CREDIT) (CONTINUED)

29.3 Recognised in insurance contract liabilities

Group	Note	2013 RM'000	2012 RM'000
Available-for-sale fair value reserve			
At 1 January		6,414	3,103
Net gain arising from change in fair value	17(a)	3,018	3,311
At 31 December		9,432	6,414
Revaluation reserve			
At 1 January		132	132
Net gain arising from change in fair value		-	-
At 31 December		132	132

29.4 Reconciliation of tax expense

Group	2013 RM'000	2012 RM'000
Profit before tax	339,231	297,779
Tax at Malaysian tax rate of 25%	84,807	74,445
Tax rate differential of 17% in respect of life fund	2,026	843
Income not subject to tax	(121,550)	(100,774)
Section 110B tax credit set off	(837)	(711)
Expenses not deductible for tax purposes	141,724	120,027
Double taxation relief	(4,497)	-
Other items	97	483
	101,770	94,313
Over provision in prior years	(460)	(4,139)
Tax expense	101,310	90,174
Company		
Profit/(Loss) before tax	39,640	(324)
Tax at Malaysian tax rate of 25%	9,910	(81)
Income not subject to tax	(10,035)	(528)
Expenses not deductible for tax purposes	861	638
Other items	(15)	5
	721	34
Over provision in prior years	(247)	(520)
Tax expense/(credit)	474	(486)

Notes to the Financial Statements

29. TAX EXPENSE/(CREDIT) (CONTINUED)

29.4 Reconciliation of tax expense (continued)

i) The income of the general business and life business shareholders' fund is taxed at 25%. The income tax provided in the life fund for the current and previous financial year is in respect of investment income which is taxed at a reduced tax rate of 8% applicable for life insurance business and 25% on income other than investment income which is taxed under Section 60(8) of the Income Tax Act, 1967 ("Act").

Previously, investment income and gains from disposal of investments from life fund was taxed twice, once at tax rate of 8% in the life fund and again at a tax rate of 25% when the surplus from life fund is transferred to shareholders' fund. In a Gazette Order on 21 April 2008 and effective from year of assessment 2008 onwards, insurance companies are permitted a set-off ("Section 110B Credits") from the total amount of tax imposed on the shareholders' fund to overcome the incidence of double taxation.

Section 110B Credits are governed by a specific Inland Revenue Board ("IRB") guideline issued on 5 November 2008 which details the computation of said credits available to the shareholders' fund of an insurance company. Section 110B Credits are applied before dividend tax credits when computing net tax payable to IRB.

ii) Under Section 60(10A) of the Act, tax losses of the life fund are restricted for deduction against future statutory income of the life fund.

However, Section 60 is silent with regards to the utilisation of unabsorbed tax losses arising from the shareholders' fund. The industry in general (including ALIM), has in the past, adopted the position that the tax losses of the shareholders' fund should be preserved for utilisation against the taxable income from the same source. However, the tax authority has made adjustments to utilise the unabsorbed losses of the shareholders' fund to offset against the income of the life fund based on the general provision of the Act.

This will result in the tax losses from the shareholders' fund (that would be taxed at the corporate rate) to be offset against the taxable income of the life fund (that would be taxed at a lower rate of 8%).

Arising from the adjustments made by the tax authority, ALIM's taxation beginning from year of assessment 2010, has been prepared without bringing forward unabsorbed tax losses of the shareholders' fund.

The industry has appealed to the Ministry of Finance to allow tax losses of the shareholders' fund to be preserved for utilisation against the taxable income from the same source.

30. EARNINGS PER ORDINARY SHARE

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2013 was based on the profit attributable to ordinary shareholders of RM237,921,000 (2012: RM207,605,000) and the weighted average number of ordinary shares in issued during the year of 159,420,000 (2012: 157,021,000).

Group	2013	2012
Profit attributable to ordinary shareholders (RM'000)	237,921	207,605
Weighted average number of shares in issue ('000)	159,420	157,021
Basic earnings per ordinary share (sen)	149.24	132.21

Notes to the Financial Statements

30. EARNINGS PER ORDINARY SHARE (CONTINUED)

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share at 31 December 2013 was based on profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue after adjusting for the effects of all dilutive potential ordinary shares, calculated as follows:

Group	2013	2012
Profit attributable to ordinary shareholders (RM'000)	237,921	207,605
Weighted average number of shares in issue ('000)	159,420	157,021
Effect of conversion of ICPS, including bonus element ('000)	244,224	224,518
Diluted weighted average number of ordinary shares during the year ('000)	403,644	381,539
Diluted earnings per ordinary share (sen)	58.94	54.41

31. DIVIDENDS

Dividends recognised by the Company are:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2013			
Final 2012 ordinary	4.88	7,774	6 August 2013
2012			
Final 2011 ordinary	3.94	6,161	8 August 2012

	Sen per share (single tier)	Total amount RM'000	Date of payment
2013			
Final 2012 preference	7.80	14,566	6 August 2013
2012			
Final 2011 preference	6.30	11,954	8 August 2012

After the end of the reporting period, the following dividends were proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval by the owners of the Company.

	Sen per share (single tier)
Final 2013 ordinary	2.50
Final 2013 preference	3.00

Notes to the Financial Statements

32. OPERATING LEASES

32.1 Leases as lessee

Total future minimum lease payments under non-cancellable operating leases are as follows:

Group	2013 RM'000	2012 RM'000
Less than one year	11,020	8,759
Between one and five years	11,127	4,847
	22,147	13,606

The leases typically run for an initial period of 1-5 years, with an option to renew the leases. None of the leases include contingent rentals.

32.2 Leases as lessor

The Group leases out its investment properties under operating leases (see Note 6). The future minimum lease receivables under non-cancellable leases are as follows:

Group	2013 RM'000	2012 RM'000
Less than one year	180	192
Between one and five years	40	220
	220	412

33. CAPITAL COMMITMENTS

Group	2013 RM'000	2012 RM'000
Property, plant and equipment		
Approved but not contracted for	62,563	34,929
Contracted but not provided for	6,488	4,865
Exclusive distribution agreement		
Contracted but not provided for	-	50,495

Notes to the Financial Statements

34. INVESTMENT-LINKED BUSINESS

Investment-linked funds statement of assets and liabilities

Group	Note	2013 RM'000	2012 RM'000
Assets			
Financial investments		464,341	347,466
Interest and dividend receivables and other receivables		6,326	6,808
Cash and cash equivalents		76,853	49,989
Total assets		547,520	404,263
Liabilities			
Deferred tax liabilities		4,014	1,787
Other payables		344	197
Benefits and claims liabilities		550	2,931
Current tax liabilities		116	135
Total liabilities		5,024	5,050
Net asset value of funds	17(a)	542,496	399,213

Investment-linked funds statement of income and expenditure for the year ended 31 December

Group	Note	2013 RM'000	2012 RM'000
Investment income		18,205	14,944
Realised gains and losses		21,667	13,742
Fair value gains and losses		29,010	10,974
Other operating income		6	143
		68,888	39,803
Other operating expenses		(8,220)	(4,171)
Profit before tax		60,668	35,632
Tax expense		(4,835)	(2,647)
Net profit for the year	17(a)	55,833	32,985

Notes to the Financial Statements

35. OPERATING SEGMENTS

Segment information is presented in respect of the Group's business segments. Each business segment is managed separately based on the Group's management and internal reporting structure.

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer (the chief operating decision maker). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

The total segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer. Segment total asset is used to measure the return of assets of each segment.

Segment capital expenditure

Segmental capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

35.1 Business segments

The Group comprises the following main business segments:

Investment holding	Investment holding
General insurance	Underwriting of all classes of general insurance business
Life insurance	Underwriting of all classes of life insurance business

35.2 Geographical segments

The Group operates predominantly in Malaysia and, accordingly, the Directors are of the opinion that the financial information by geographical segments of the Group's operations is not necessary to be presented.

Notes to the Financial Statements

35. OPERATING SEGMENTS (CONTINUED)

Business segments	Investment holding RM'000	General business RM'000	Life business RM'000	Consolidated RM'000
2013				
Segment revenue	11,221	1,838,088	1,800,080	3,649,389
Segment results	(1,115)	258,250	82,096	339,231
Profit before tax				339,231
Tax expense				(101,310)
Profit for the year				237,921
Segment assets	415,093	4,819,320	5,524,349	10,758,762
Segment liabilities	65,711	3,467,586	5,201,283	8,734,580
Inter-segment revenue	(46,832)	-	-	(46,832)
Capital expenditure	85	14,232	56,307	70,624
Depreciation of property, plant and equipment	1,205	8,900	3,284	13,389
Amortisation of intangible assets	-	9,780	5,386	15,166
Reversal of allowance for impairment loss on receivables	-	(2,384)	1,073	(1,311)
Amortisation of premiums	-	5,686	4,398	10,084
Accretion of discounts	-	(1,668)	(3,800)	(5,468)
2012				
Segment revenue	10,383	1,658,634	1,478,582	3,147,599
Segment results	9,384	215,918	72,477	297,779
Profit before tax				297,779
Tax expense				(90,174)
Profit for the year				207,605
Segment assets	338,552	4,251,890	4,600,044	9,190,486
Segment liabilities	9,821	3,020,065	4,319,814	7,349,700
Inter-segment revenue	(4,176)	-	-	(4,176)
Capital expenditure	116	9,053	4,619	13,788
Depreciation of property, plant and equipment	1,012	8,418	2,749	12,179
Amortisation of intangible assets	-	11,396	46	11,442
Reversal of allowance for impairment loss on receivables	-	(2,285)	1,075	(1,210)
Amortisation of premiums	-	6,243	3,964	10,207
Accretion of discounts	-	(213)	(5,318)	(5,531)

Notes to the Financial Statements

36. RELATED PARTIES

36.1 Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions, or vice versa, or where the Group or the Company and the other 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 Group or the Company either directly or indirectly. The key management personnel include all the Directors of the Group and the Company, and certain members of Senior Management Committee of the Group and the Company. Compensation of key management personnel have been disclosed in Note 28.2. Apart from this, there are no other transactions with key management personnel.

36.2 The significant transactions with related parties are as follows:

Group	Amount transacted for the year ended 31 December 2013 RM'000	Amount transacted for the year ended 31 December 2012 RM'000
Trade		
Ultimate holding company		
Reinsurance premium	(151)	(230)
Related companies*		
Reinsurance premium and commission	(244,670)	(249,163)
Motor insurance premium	(215)	(161)
Insurance premium	62	(107)
Non-trade		
Ultimate holding company		
Payment of personnel expenses	(478)	-
Payment of IT service costs	-	(215)
Payment of global marketing expenses	(1,046)	(984)
Sharing of human resource database platform expenses	-	(49)
(Payment)/Reimbursement of payment made on behalf	(39)	119

Notes to the Financial Statements

36. RELATED PARTIES (CONTINUED)

36.2 The significant transactions with related parties are as follows (continued):

Group	Amount transacted for the year ended 31 December 2013 RM'000	Amount transacted for the year ended 31 December 2012 RM'000
Non-trade (continued)		
Immediate holding company		
Advance	54,300	-
Interest expense on advance received	(2,297)	-
Related companies*		
Redemption/(Purchase) of investment in foreign unit trust	765	(34,405)
Payment of service fees	(6,928)	(5,454)
Payment of other expenses	(3,001)	(4,237)
Payment of fund management and fees	(1,497)	(1,801)
Payment of personnel expenses	(1,365)	(1,194)
Payment of brokerage fees for purchases and disposals of equities	(21)	(122)
Payment of intranet portal network cost	(371)	(284)
Insurance payment	(146)	(694)
Rental expenses	(169)	(267)
Rental income	360	162
Share of common expenses	858	888
Sharing of asset and investment manager database	(281)	-
Payment of purchases of various software licenses	(28)	-
Sharing of expenses of HR database platform and recruitment solution	(24)	-

* Related companies are companies within the Allianz SE group.

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

Balances related to the above transactions are disclosed in Note 9, 10, 13 and 14.

Notes to the Financial Statements

36. RELATED PARTIES (CONTINUED)

36.2 The significant transactions with related parties are as follows (continued):

Company	Amount transacted for the year ended 31 December 2013 RM'000	Amount transacted for the year ended 31 December 2012 RM'000
Non-trade		
Immediate holding company		
Advance	54,300	-
Interest expense on advance received	(2,297)	-
Subsidiaries		
Subordinated loan	(54,300)	30,670
(Payment)/Reimbursement of other expenses	(77)	861
Reimbursement of expenses related to common resources	12,833	8,838
Interest income on subordinated loan	2,403	-
Rental of other premises	(9)	(9)

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

Significant related party balances related to the above transactions are disclosed in Note 10, 14 and 15.

37. RISK MANAGEMENT FRAMEWORK

As a provider of insurance services, the Group considers risk management to be one of its core competencies. It is an integrated part of the Group's business process. In order to protect the assets of the Group, the Group has established a risk management framework to promote a risk management culture supported by a robust risk governance structure.

This framework ensures that risks are identified, analysed and evaluated. Risk appetite is defined by a risk strategy and limit structure. Close monitoring and reporting allows the Group to detect deviations from its risk tolerance limits at an early stage.

The Allianz risk management framework consists of the following four primary components:

Risk underwriting and identification

A sound risk underwriting and identification framework including risk assessment, risk standards, and clear targets form the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, strategic or tactical asset allocation.

Risk evaluation, reporting and controlling

The Group's qualitative and quantitative risk reporting and controlling framework provides transparency and early warning indicators to senior management with regards to its overall risk profile and whether the profile is within delegated limits and authorities.

Notes to the Financial Statements

37. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Risk strategy and risk appetite

The Group's risk strategy clearly defines its risk appetite. It ensures that returns are appropriate for the risks taken and that the delegated authorities are in line with the Group's overall risk bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into management and decision making process. This also keeps risk strategy and business objectives consistent with each other and allows the Group to take opportunities within its risk appetite.

Communication and transparency

Finally, a transparent and robust risk disclosure provides a basis for communicating this strategy to the Group's internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing.

Risk governance structure

The Board of Directors of the Company (the "Board") assumes the ultimate responsibility over the effectiveness of the Group's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the Risk Management Committee ("RMC") to discharge its oversight function effectively.

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Group. RMC also oversees the Senior Management's activities in managing the key risk areas of the Group and to ensure that the risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of the Group and to report to the Board on its recommendations and/or decisions. Through structured reporting from the Risk Management Working Committee ("RMWC"), RMC will consolidate the status of the risks and present them to the Board for consideration.

RMC serves as and provides a platform for two way communications between the management and the Board on matters of the Group's risk management framework and its strategies. RMWC is responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendation to the Board. RMWC determines the allocation of risks by cascading and/or escalating to the relevant owners. RMWC also oversees the compliance of all risk management process by all departments of the Group and provides pre-emptive recommendations to ensure timely action is taken in managing and mitigating the identified risks.

Asset and Liability Management ("ALM") Framework

An Asset-Liability Working Group has been tasked to manage business practices so that decisions and actions taken with respect to assets and liabilities are coordinated. It involves various management activities and responsibilities, including the formulation of long-term strategic goals and objectives and the management of various risks including liquidity risk, interest rate/profit yield risk and market risk.

The ALM process chosen will reflect external and internal constraints.

- External constraints include supervisory and legislative requirements, the interests and expectations of policyholders and other stakeholders. A significant constraint is the liquidity of the assets and liabilities which may compromise the ability to price, measure and hedge exposures.
- Internal constraints such as asset allocation limits reflect the Group's management philosophy or professional judgement (although this may also be influenced by external constraints).

Governance and regulatory framework

The Group is required to comply with the requirements of the Financial Services Act, 2013, relevant laws and guidelines from BNM, Life Insurance Association Malaysia ("LIAM"), Persatuan Insurans Am Malaysia ("PIAM") and Bursa Securities Malaysia Berhad.

The Group is also required to comply with all Allianz SE Group's policies and standards. If there is any conflict with the local laws or regulations, the stricter will apply.

Notes to the Financial Statements

38. INSURANCE RISK

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims, frequency and severity and the risk of change in the legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Group seeks to minimise underwriting risks through a formalised reinsurance arrangement with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines and limits and standards.

38.1 Life insurance contracts

The insurance risk of Life insurance contracts consists of mortality/ longevity and calamity risks. Mortality/ longevity risk represents the risk of loss attributable to positive or negative changes in the assumed medical prognosis for life expectancy, occupational disability, illness and the need for long-term care as well as underestimation of these probabilities. Calamity risk represents the risk of loss because of strong short-term fluctuation in the mortality rate, for example as a result of war or epidemics.

The table below shows the concentration of life insurance contract liabilities with DPF and without DPF by type of contract.

	Gross			Reinsurance			
Group	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net RM'000
31 December 2013							
Whole life	1,862,139	435,066	2,297,205	-	(10,645)	(10,645)	2,286,560
Endowment	562,767	454,346	1,017,113	-	-	-	1,017,113
Mortgage	-	119,097	119,097	-	(66,895)	(66,895)	52,202
Riders and others	384,098	138,513	522,611	-	-	-	522,611
Total	2,809,004	1,147,022	3,956,026	-	(77,540)	(77,540)	3,878,486
31 December 2012							
Whole life	1,521,604	260,279	1,781,883	-	(16,267)	(16,267)	1,765,616
Endowment	481,212	387,892	869,104	-	(2,251)	(2,251)	866,853
Mortgage	-	113,775	113,775	-	(53,511)	(53,511)	60,264
Riders and others	345,835	128,974	474,809	(2,558)	(11,949)	(14,507)	460,302
Total	2,348,651	890,920	3,239,571	(2,558)	(83,978)	(86,536)	3,153,035

As all of the business is derived from Malaysia, the entire life insurance contract liabilities are in Malaysia and no investment contract.

Notes to the Financial Statements

38. INSURANCE RISK (CONTINUED)

38.1 Life insurance contracts (continued)

Key assumptions

Significant judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experiences, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

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

- Mortality and morbidity rates
  Experience study on mortality and morbidity rates is carried out on an annual basis. The actual claim experience is compared against industrial mortality table and reinsurers' mortality risk charges. Mortality and morbidity assumptions vary by product type and underwriting procedures.

  For investment-linked and universal life contracts, it is assumed that the subsidiary will be able to increase mortality risk charges in future years in line with emerging mortality experience.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

- Longevity
  The subsidiary is not exposed to longevity risk.

- Expenses
  Expense assumption was set during initial pricing stage. Expense assumption is inflated annually to reflect higher cost of underwriting, issuing and maintaining the policies. Expense assumption varies by premium term, distribution channel, policy duration and underwriting procedures. The expense assumption is reviewed annually; it is compared to actual expense that the subsidiary incurred.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

- Lapse and surrender rates
  Experience study on lapse and surrender rates is carried out on an annual basis using statistical method. Lapse and surrender rates vary by product type, distribution channel and policy duration.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

Notes to the Financial Statements

38. INSURANCE RISK (CONTINUED)

38.1 Life insurance contracts (continued)

Key assumptions (continued)

- Discount rate
  In the valuation of the total benefits insurance liabilities of participating life policies, the subsidiary has assumed a long term gross rate of return of 4.50% - 6.50% per annum. The long term gross rate of return is derived based on a basket of strategic asset allocations. The subsidiary calculates long term gross rate by assuming each asset class will earn the targeted yield. The strategic asset allocation and targeted yield are reviewed annually in accordance to the subsidiary's investment philosophy, market condition and the prevailing long term market return for each asset class.

  Malaysian Government Securities ("MGS") spot rate is used in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

The assumptions that have significant effects on the gross insurance contract liabilities and reinsurance assets are listed below.

	Mortality and morbidity rates[(1)]		Lapse and surrender rates		Discount rate	
	2013	2012	2013	2012	2013	2012
Group	%	%	%	%	%	%
Type of business						
With fixed and guaranteed terms and with DPF contracts						
Life insurance	70-80	70-80	3-30	3-30	4.50-6.50	4.50-6.50
Without DPF contracts						
Life insurance	70-150	70-150	3-40	3-35	MGS spot yield	MGS spot yield

(1) Industry mortality and morbidity experience tables that were observed in Malaysia between year 1999 and 2003 or the respective reinsurance risk rates.

Sensitivities

The analysis below is performed for reasonable possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax. Sensitivities testing on individual assumptions are meaningful to analyse the magnitude of reserve changes for each assumption. However, it should be studied with care as it does not capture the possible correlation effect when all assumptions are being stressed simultaneously. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

Notes to the Financial Statements

38. INSURANCE RISK (CONTINUED)

38.1 Life insurance contracts (continued)

Sensitivities (continued)

Group	Change in assumptions	Impact on profit before tax# RM'000	Impact on gross liabilities* RM'000	Impact on net liabilities* RM'000
Life insurance contracts				
31 December 2013				
Mortality and morbidity rates	+5%	(5,851)	13,802	10,310
Discount rate	-0.5%	(23,472)	248,371	245,984
Expenses	+10%	(10,653)	18,468	18,468
Lapse and surrender rates	-10%	978	24,083	23,744
31 December 2012				
Mortality and morbidity rates	+5%	(6,353)	13,330	10,511
Discount rate	-0.5%	(28,927)	228,461	223,983
Expenses	+10%	(9,357)	17,413	17,046
Lapse and surrender rates	-10%	(2,671)	31,560	30,891

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

The above illustration is only prepared for adverse scenario, where the key assumptions are being moved in an unfavourable direction. In the sensitivity analysis above, changes in assumptions for life non participating business would impact the profit before tax and insurance contract liabilities. In respect of life participating insurance business, it would impact the insurance contract liabilities.

* The impact on gross and net liabilities only reflects the changes in the prescribed assumptions above without adjustment to policyholders' bonuses for the life participating business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

38.2 General insurance contracts

The insurance risk of general insurance contracts consists of premium and reserve risks. Premium risk represents the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Reserve risk represents the risk of loss resulting from deviations between payments for incurred losses that have not yet been settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves.

Notes to the Financial Statements

38. INSURANCE RISK (CONTINUED)

38.2 General insurance contracts (continued)

The table below sets out the concentration of the general insurance risk based on the provision for outstanding claims as at the end of the reporting period by type of contract.

	2013			2012		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fire	220,420	(134,431)	85,989	218,447	(150,978)	67,469
Motor	1,117,069	(163,509)	953,560	923,585	(124,206)	799,379
Marine cargo, aviation cargo and transit	148,218	(122,783)	25,435	165,356	(141,541)	23,815
Miscellaneous	607,385	(432,935)	174,450	614,066	(455,842)	158,224
Total	2,093,092	(853,658)	1,239,434	1,921,454	(872,567)	1,048,887

Key assumptions

The principal assumption underlying the liability estimates is that the subsidiary's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

No discounting is made to the recommended claims and premium liability provisions as a prudent measure. In addition, no explicit inflation adjustment has been made to claims amount payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development. It is worthwhile to note that discounting is unlikely to result in any material impact due to the short tail nature of almost all classes, coupled with the low prevailing interest rate environment.

The subsidiary has based its risk margin for adverse deviation ("PRAD") for the provisions for unexpired risks and insurance claims at the minimum 75% of sufficiency, according to the requirement set by BNM under the RBC Framework.

Sensitivities

The independent actuarial firm engaged by the subsidiary re-runs its valuation models on various bases. Analysis of sensitivity around various scenarios provides an indication of the adequacy of the subsidiary's estimation process in respect of its insurance contracts. The table presented below demonstrates the sensitivity of the insurance contract liabilities estimates to particular movements in assumptions used in the estimation process.

The analysis below is performed for reasonable possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

Notes to the Financial Statements

38. INSURANCE RISK (CONTINUED)

38.2 General insurance contracts (continued)

Sensitivities (continued)

Group	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
31 December 2013					
Average claim cost	+10%	187,625	119,436	(119,436)	(89,577)
Average number of claims	+10%	163,978	110,344	(110,344)	(82,758)
Average claim settlement period	Increased by 6 months	39,756	23,653	(23,653)	(17,740)
31 December 2012					
Average claim cost	+10%	169,447	99,864	(99,864)	(74,898)
Average number of claims	+10%	154,693	101,886	(101,886)	(76,415)
Average claim settlement period	Increased by 6 months	36,933	19,775	(19,775)	(14,831)

* Impact on equity reflects adjustments for tax, where applicable.

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

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date.

While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The management of the subsidiary believes that the estimate of total claims outstanding as of 31 December 2013 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Notes to the Financial Statements

38. INSURANCE RISK (CONTINUED)

38.2 General insurance contracts (continued)

Claims development table (continued)

Gross general insurance claims liabilities as at 31 December 2013:

Accident year	Before 2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	Total RM'000
At end of accident year		458,967	696,740	600,933	800,472	808,271	863,518	951,235	1,145,412	
One year later		569,098	704,712	581,075	819,547	828,768	784,221	848,149	-	
Two years later		567,365	661,421	587,257	827,424	810,356	754,244	-	-	
Three years later		552,186	664,919	593,676	829,042	800,033	-	-	-	
Four years later		552,987	650,794	584,185	805,420	-	-	-	-	
Five years later		550,076	644,409	573,592	-	-	-	-	-	
Six years later		539,054	632,905	-	-	-	-	-	-	
Seven years later		503,512	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		503,512	632,905	573,592	805,420	800,033	754,244	848,149	1,145,412	
At end of accident year		173,028	202,481	183,848	250,248	214,460	244,889	259,072	344,439	
One year later		365,770	378,908	366,451	565,497	454,277	520,198	544,612	-	
Two years later		420,153	447,535	445,223	683,192	580,037	620,775	-	-	
Three years later		451,648	482,778	482,302	721,408	612,202	-	-	-	
Four years later		470,711	502,784	495,924	733,797	-	-	-	-	
Five years later		480,258	508,106	504,364	-	-	-	-	-	
Six years later		478,854	510,689	-	-	-	-	-	-	
Seven years later		478,629	-	-	-	-	-	-	-	
Cumulative payments to-date		478,629	510,689	504,364	733,797	612,202	620,775	544,612	344,439	
Gross general insurance claims liabilities (direct and facultative)	117,652	24,883	122,216	69,228	71,623	187,831	133,469	303,537	800,973	1,831,412
Gross general insurance claims liabilities (treaty inward)										64,100
Best estimate of claims liabilities										1,895,512
Claims handling expenses										9,576
PRAD at 75% confidence level										188,004
Gross general insurance claims liabilities										2,093,092

Notes to the Financial Statements

38. INSURANCE RISK (CONTINUED)

38.2 General insurance contracts (continued)

Claims development table (continued)

Net general insurance claims liabilities as at 31 December 2013:

Accident year	Before 2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	Total RM'000
At end of accident year		376,869	397,343	419,318	472,716	517,803	622,921	675,017	875,651	
One year later		377,596	401,498	422,319	479,710	494,994	570,921	616,026	-	
Two years later		373,040	395,653	431,658	493,315	502,000	558,132	-	-	
Three years later		363,464	398,007	441,584	498,099	498,434	-	-	-	
Four years later		364,426	394,074	441,534	494,929	-	-	-	-	
Five years later		361,628	390,037	435,122	-	-	-	-	-	
Six years later		358,238	384,892	-	-	-	-	-	-	
Seven years later		348,534	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		348,534	384,892	435,122	494,929	498,434	558,132	616,026	875,651	
At end of accident year		151,133	150,994	165,070	191,803	188,247	201,756	216,325	294,253	
One year later		271,229	275,172	305,313	343,484	352,308	390,265	424,771	-	
Two years later		291,736	306,459	350,112	408,146	418,534	462,811	-	-	
Three years later		312,530	333,465	376,842	438,664	444,732	-	-	-	
Four years later		328,164	346,469	384,686	447,322	-	-	-	-	
Five years later		335,861	350,016	389,404	-	-	-	-	-	
Six years later		337,922	351,630	-	-	-	-	-	-	
Seven years later		340,306	-	-	-	-	-	-	-	
Cumulative payments to-date		340,306	351,630	389,404	447,322	447,732	462,811	424,771	294,253	
Net general insurance claims liabilities (direct and facultative)	28,201	8,228	33,262	45,718	47,607	53,702	95,321	191,255	581,398	1,084,692
Net general insurance claims liabilities (treaty inward)										52,598
Best estimate of claims liabilities										1,137,290
Claims handling expenses										9,576
PRAD at 75% confidence level										92,568
Net general insurance claims liabilities										1,239,434

Notes to the Financial Statements

39. FINANCIAL RISKS

Exposure to credit, liquidity, market (currency risk, interest rate/profit yield risk, equity price risk) and operational risk arises in the normal course of the Group's and the Company's business. The Group and the Company are guided by its risk management framework as well as policies and guidelines from the ultimate holding company, Allianz SE which set out its general risk management philosophy. Through financial risk management, business strategies are evaluated to ensure their appropriateness to the strategic, operational and financial risks tolerance.

39.1 Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a counterparty of a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from the underwriting of insurance business and the investment in fixed income instruments. The Company's exposure to credit risk arises principally from subordinated loan to subsidiary. Financial loss may materialise when the counterparties failed to meet payment obligations for various reasons.

The Group has credit policies in place to mitigate the credit risk from underwriting of insurance business and it is monitored on an ongoing basis. Reinsurance is prioritised to local insurers or reinsurers, and if the Group has to place overseas, only counterparties that have a credit rating that is acceptable to Allianz SE Group are used.

With effect from 12 September 2008, all new bond investments must carry a minimum rating of AA- by rating agencies established in Malaysia or a minimum rating of BBB- by any internationally recognised rating agency as outlined in the Group's Investment Mandate which is approved by the Board of Directors.

The Group and the Company consider ratings BBB and above as investment grades and ratings below BBB as non-investment grades. Assets which are not rated by rating agencies are classified as non-rated.

Credit exposure by credit rating

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

	Neither past-due nor impaired					
Group	Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2013						
HTM financial investments						
Malaysian government securities	-	-	680,270	-	-	680,270
Malaysian government guaranteed bonds	-	-	543,837	-	-	543,837
Ringgit denominated bonds by foreign issuers in Malaysia	99,785	-	-	-	-	99,785

* Investment grade is defined as investment with rating BBB and above.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

Group	Neither past-due nor impaired Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2013 (continued)						
LAR						
Malaysian government guaranteed loans	-	-	260,000	-	-	260,000
Other loans and receivables	-	-	85,824	-	-	85,824
Fixed and call deposits	19,916	-	5,000	157	-	25,073
AFS financial investments						
Malaysian government securities	-	-	1,429,453	-	-	1,429,453
Malaysian government guaranteed bonds	90,842	-	384,825	-	-	475,667
Ringgit denominated bonds by foreign issuers in Malaysia	54,033	-	-	-	-	54,033
Debt securities	953,635	3,726	-	-	-	957,361
Structured deposits with licensed financial institutions	82,877	-	-	-	-	82,877
FVTPL - HFT financial investments						
Malaysian government securities	-	-	137,442	24,279	-	161,721
Malaysian government guaranteed bonds	-	-	99,298	7,444	-	106,742
Ringgit denominated bonds by foreign issuers in Malaysia	1,558	-	-	3,635	-	5,193
Debt securities	133,353	-	-	84,590	-	217,943
Structured deposits with licensed financial institutions	-	-	-	25,195	-	25,195

* Investment grade is defined as investment with rating BBB and above.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired					
Group	Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2013 (continued)						
FVTPL - Designated upon initial recognition						
Malaysian government securities	-	-	508,076	-	-	508,076
Malaysian government guaranteed bonds	-	-	250,557	-	-	250,557
Ringgit denominated bonds by foreign issuers in Malaysia	62,416	-	-	-	-	62,416
Debt securities	933,136	5,110	-	-	-	938,246
Structured deposits with licensed financial institutions	119,647	-	-	-	-	119,647
Derivative financial assets						
Forward starting interest rate swap	-	-	-	-	-	-
Reinsurance assets	593,860	3,774	133,879	-	-	731,513
Insurance receivables	2,647	217	149,548	-	10,629	163,041
Other receivables and deposits	-	-	169,043	6,326	-	175,369
Cash and cash equivalents	534,964	-	6,682	76,853	-	618,499
	3,682,669	12,827	4,843,734	228,479	10,629	8,778,338

* Investment grade is defined as investment with rating BBB and above.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

Company	Neither past-due nor impaired Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2013						
LAR						
Fixed and call deposits	19,916	-	-	-	-	19,916
Other receivables and deposits	-	-	5,250	-	-	5,250
Subordinated loan	-	-	54,300	-	-	54,300
Cash and cash equivalents	14,069	-	-	-	-	14,069
	33,985	-	59,550	-	-	93,535

Group	Neither past-due nor impaired Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2012						
HTM financial investments						
Malaysian government securities	-	-	570,826	-	-	570,826
Malaysian government guaranteed bonds	-	-	443,189	-	-	443,189
Ringgit denominated bonds by foreign issuers in Malaysia	109,720	-	-	-	-	109,720
LAR						
Malaysian government guaranteed loans	-	-	260,000	-	-	260,000
Other loans and receivables	-	-	74,098	-	-	74,098
Fixed and call deposits	10,500	-	10,668	2,400	-	23,568
AFS financial investments						
Malaysian government securities	-	-	1,227,948	-	-	1,227,948
Malaysian government guaranteed bonds	76,295	-	291,502	-	-	367,797
Ringgit denominated bonds by foreign issuers in Malaysia	149,511	-	-	-	-	149,511

* Investment grade is defined as investment with rating BBB and above.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired					
Group	Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2012 (continued)						
AFS financial investments (continued)						
Debt securities	853,570	-	-	-	-	853,570
Structured deposits with licensed financial institutions	63,498	-	-	-	-	63,498
FVTPL - HFT financial investments						
Malaysian government securities	-	-	59,550	13,888	-	73,438
Malaysian government guaranteed bonds	-	-	31,624	5,173	-	36,797
Ringgit denominated bonds by foreign issuers in Malaysia	1,582	-	-	3,691	-	5,273
Debt securities	76,460	-	-	67,157	-	143,617
Structured deposits with licensed financial institutions	-	-	-	30,170	-	30,170
FVTPL - Designated upon initial recognition						
Malaysian government securities	-	-	499,113	-	-	499,113
Malaysian government guaranteed bonds	-	-	124,057	-	-	124,057
Ringgit denominated bonds by foreign issuers in Malaysia	62,998	-	-	-	-	62,998
Debt securities	893,620	-	-	-	-	893,620
Structured deposits with licensed financial institutions	123,459	-	-	-	-	123,459

* Investment grade is defined as investment with rating BBB and above.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past-due nor impaired					
Group	Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2012 (continued)						
Derivative financial assets						
Forward starting interest rate swap	8,946	-	-	-	-	8,946
Reinsurance assets	623,230	-	127,816	-	-	751,046
Insurance receivables	4,983	-	130,459	-	9,127	144,569
Other receivables and deposits	-	-	109,565	6,808	-	116,373
Cash and cash equivalents	397,573	-	255	49,989	-	447,817
	3,455,945	-	3,960,670	179,276	9,127	7,605,018

	Neither past-due nor impaired					
Company	Investment grade* RM'000	Non-investment grade RM'000	Non-rated RM'000	Investment-linked funds RM'000	Past-due but not impaired RM'000	Total RM'000
2012						
LAR						
Fixed and call deposits	10,500	-	-	-	-	10,500
Other receivables and deposits	-	-	3,652	-	-	3,652
Subordinated loan	-	-	-	-	-	-
Cash and cash equivalents	6,831	-	-	-	-	6,831
	17,331	-	3,652	-	-	20,983

* Investment grade is defined as investment with rating BBB and above.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Group and the Company by classifying financial assets according to the credit rating agencies' credit ratings of counterparties. AAA is the highest possible rating. Financial assets that fall outside the range of AAA to BBB are classified as speculative grade.

Group	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2013								
HTM financial investments								
Malaysian government securities	-	-	-	-	-	680,270	-	680,270
Malaysian government guaranteed bonds	-	-	-	-	-	543,837	-	543,837
Ringgit denominated bonds by foreign issuers in Malaysia	84,785	15,000	-	-	-	-	-	99,785
LAR								
Malaysian government guaranteed loans	-	-	-	-	-	260,000	-	260,000
Other loans and receivables	-	-	-	-	-	85,824	-	85,824
Fixed and call deposits	12,164	6,252	1,500	-	-	5,000	157	25,073
AFS financial investments								
Malaysian government securities	-	-	-	-	-	1,429,453	-	1,429,453
Malaysian government guaranteed bonds	90,842	-	-	-	-	384,825	-	475,667
Ringgit denominated bonds by foreign issuers in Malaysia	52,516	1,517	-	-	-	-	-	54,033
Debt securities	366,259	587,376	-	-	3,726	-	-	957,361
Structured deposits with licensed financial institutions	82,877	-	-	-	-	-	-	82,877

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

Group	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2013 (continued)								
FVTPL - HFT financial investments								
Malaysian government securities	-	-	-	-	-	137,442	24,279	161,721
Malaysian government guaranteed bonds	-	-	-	-	-	99,298	7,444	106,742
Ringgit denominated bonds by foreign issuers in Malaysia	1,558	-	-	-	-	-	3,635	5,193
Debt securities	64,233	69,120	-	-	-	-	84,590	217,943
Structured deposits with licensed financial institutions	-	-	-	-	-	-	25,195	25,195
FVTPL - Designated upon initial recognition								
Malaysian government securities	-	-	-	-	-	508,076	-	508,076
Malaysian government guaranteed bonds	-	-	-	-	-	250,557	-	250,557
Ringgit denominated bonds by foreign issuers in Malaysia	53,817	8,599	-	-	-	-	-	62,416
Debt securities	373,489	559,647	-	-	5,110	-	-	938,246
Structured deposits with licensed financial institutions	119,647	-	-	-	-	-	-	119,647
Derivative financial assets								
Forward starting interest rate swap	-	-	-	-	-	-	-	-
Reinsurance assets	-	364,095	229,745	20	3,774	133,879	-	731,513
Insurance receivables	-	472	2,126	49	217	160,177	-	163,041
Other receivables and deposits	-	-	-	-	-	169,043	6,326	175,369
Cash and cash equivalents	467,147	28,553	39,264	-	-	6,682	76,853	618,499
	1,769,334	1,640,631	272,635	69	12,827	4,854,363	228,479	8,778,338

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

Company	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2013								
LAR								
Fixed and call deposits	12,164	6,252	1,500	-	-	-	-	19,916
Other receivables and deposits	-	-	-	-	-	5,250	-	5,250
Subordinated loan	-	-	-	-	-	54,300	-	54,300
Cash and cash equivalents	10,069	-	4,000	-	-	-	-	14,069
	22,233	6,252	5,500	-	-	59,550	-	93,535

Group	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2012								
HTM financial investments								
Malaysian government securities	-	-	-	-	-	570,826	-	570,826
Malaysian government guaranteed bonds	-	-	-	-	-	443,189	-	443,189
Ringgit denominated bonds by foreign issuers in Malaysia	29,720	70,000	-	10,000	-	-	-	109,720
LAR								
Malaysian government guaranteed loans	-	-	-	-	-	260,000	-	260,000
Other loans and receivables	-	-	-	-	-	74,098	-	74,098
Fixed and call deposits	10,500	-	-	-	-	10,668	2,400	23,568
AFS financial investments								
Malaysian government securities	-	-	-	-	-	1,227,948	-	1,227,948
Malaysian government guaranteed bonds	76,295	-	-	-	-	291,502	-	367,797

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

Group	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2012 (continued)								
AFS financial investments (continued)								
Ringgit denominated bonds by foreign issuers in Malaysia	137,800	11,711	-	-	-	-	-	149,511
Debt securities	251,581	563,073	7,177	31,739	-	-	-	853,570
Structured deposits with licensed financial institutions	63,498	-	-	-	-	-	-	63,498
FVTPL - HFT financial investments								
Malaysian government securities	-	-	-	-	-	59,550	13,888	73,438
Malaysian government guaranteed bonds	-	-	-	-	-	31,624	5,173	36,797
Ringgit denominated bonds by foreign issuers in Malaysia	-	1,582	-	-	-	-	3,691	5,273
Debt securities	19,455	44,956	-	12,049	-	-	67,157	143,617
Structured deposits with licensed financial institutions	-	-	-	-	-	-	30,170	30,170
FVTPL - Designated upon initial recognition								
Malaysian government securities	-	-	-	-	-	499,113	-	499,113
Malaysian government guaranteed bonds	-	-	-	-	-	124,057	-	124,057
Ringgit denominated bonds by foreign issuers in Malaysia	3,051	59,947	-	-	-	-	-	62,998
Debt securities	288,745	410,390	85,014	109,471	-	-	-	893,620
Structured deposits with licensed financial institutions	123,459	-	-	-	-	-	-	123,459

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

Group	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2012 (continued)								
Derivative financial assets								
Forward starting interest rate swap	8,946	-	-	-	-	-	-	8,946
Reinsurance assets	-	343,459	276,072	3,699	-	127,816	-	751,046
Insurance receivables	-	1,992	2,806	185	-	139,586	-	144,569
Other receivables and deposits	-	-	-	-	-	109,565	6,808	116,373
Cash and cash equivalents	285,522	24,393	87,658	-	-	255	49,989	447,817
	1,298,572	1,531,503	458,727	167,143	-	3,969,797	179,276	7,605,018

Company	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2012								
LAR								
Fixed and call deposits	10,500	-	-	-	-	-	-	10,500
Other receivables and deposits	-	-	-	-	-	3,652	-	3,652
Subordinated loan	-	-	-	-	-	-	-	-
Cash and cash equivalents	6,131	700	-	-	-	-	-	6,831
	16,631	700	-	-	-	3,652	-	20,983

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Group and the Company according to the Group's and the Company's categorisation of counterparties by credit rating.

Group	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2013								
Investment grade	1,769,334	1,640,631	272,635	69	-	-	190,430	3,873,099
Non-investment grade	-	-	-	-	12,827	-	-	12,827
Non-rated	-	-	-	-	-	4,843,734	38,049	4,881,783
Past-due but not impaired	-	-	-	-	-	10,629	-	10,629
	1,769,334	1,640,631	272,635	69	12,827	4,854,363	228,479	8,778,338

Group	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2012								
Investment grade	1,298,572	1,531,503	458,727	167,143	-	-	125,249	3,581,194
Non-investment grade	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	3,960,670	54,027	4,014,697
Past-due but not impaired	-	-	-	-	-	9,127	-	9,127
	1,298,572	1,531,503	458,727	167,143	-	3,969,797	179,276	7,605,018

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Group and the Company according to the Group's and the Company's categorisation of counterparties by credit rating.

Company	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2013								
Investment grade	22,233	6,252	5,500	-	-	-	-	33,985
Non-rated	-	-	-	-	-	59,550	-	59,550
	22,233	6,252	5,500	-	-	59,550	-	93,535

Company	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	BB and below RM'000	Non-rated RM'000	Investment-linked funds RM'000	Total RM'000
2012								
Investment grade	16,631	700	-	-	-	-	-	17,331
Non-rated	-	-	-	-	-	3,652	-	3,652
	16,631	700	-	-	-	3,652	-	20,983

The Group has not provided the credit risk analysis for the financial assets of the investment-linked business. This is due to the fact that, in investment-linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities and the shareholders have no direct exposure to any credit risk in those assets.

(i) Past-due but not impaired financial assets

Age analysis of financial assets past-due but not impaired

The Group maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past due but not impaired as at the reporting date is as follows:

Group	< 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	> 91 days RM'000	Investment-linked funds RM'000	Total RM'000
2013						
Insurance receivables	7,762	1,697	381	789	-	10,629
2012						
Insurance receivables	7,779	546	296	506	-	9,127

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.1 Credit risk (continued)

(ii) Past-due and impaired financial assets

As at 31 December 2013, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM19,357,000 (2012: RM20,531,000) and other receivables of RM3,906,000 (2012: RM4,043,000) respectively. No collateral is held as security for any past-due or impaired assets. A reconciliation of the allowance for impairment losses for insurance receivables and other receivables are as follows:

	Insurance receivables		Other receivables	
Group	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
At 1 January	20,531	22,205	4,043	3,579
Impairment loss (reversed)/ recognised	(1,174)	(1,674)	(137)	464
At 31 December	19,357	20,531	3,906	4,043
	Note 9	Note 9	Note 10	Note 10

39.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Group and the Company, refinancing is only possible at higher interest rates or that assets may have to be liquidated at a discount.

Besides monitoring the liquidity position of the Group and the Company on a daily basis, the investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets in the portfolio. Some other tools used by the Group include ensuring that its assets and liabilities are adequately matched and drawing down of funds to meet claim payments should the claim events exceed a certain amount as provided for in the reinsurance contracts.

Maturity profiles

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on remaining undiscounted contractual obligations, including interest/profit payable.

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

Investment-linked funds' 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.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.2 Liquidity risk (continued)

Maturity profiles (continued)

Group	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	5-15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
2013								
Insurance contract liabilities								
With DPF	2,978,413	376,578	(72,968)	331,765	2,047,466	7,584,472	-	10,267,313
Without DPF	1,689,517	1,246,540	20,351	60,370	303,698	356,005	-	1,986,964
Derivative financial liabilities	20,950	20,950	-	-	-	-	-	20,950
Provision for claims	1,564,159	846,152	484,622	112,794	120,591	-	-	1,564,159
Other financial liabilities	3,612	2,621	991	-	-	-	-	3,612
Insurance payables	337,233	318,744	16,601	1,888	-	-	-	337,233
Other payables and accruals	281,273	228,227	4,899	57,975	-	-	-	291,101
Benefits and claims liabilities	117,858	117,858	-	-	-	-	-	117,858
Total liabilities	6,993,015	3,157,670	454,496	564,792	2,471,755	7,940,477	-	14,589,190
Company								
2013								
Other payables and accruals	190,561	137,520	4,894	57,975	-	-	-	200,389
Group								
2012								
Insurance contract liabilities								
With DPF	2,590,521	377,953	(157,158)	185,655	1,990,538	6,231,900	-	8,628,888
Without DPF	1,290,132	732,506	66,805	65,592	328,094	361,754	-	1,554,751
Derivative financial liabilities	-	-	-	-	-	-	-	-
Provision for claims	1,420,276	700,140	480,777	148,188	91,171	-	-	1,420,276
Other financial liabilities	3,853	2,714	1,139	-	-	-	-	3,853
Insurance payables	328,933	308,466	18,973	1,494	-	-	-	328,933
Other payables and accruals	165,669	165,648	21	-	-	-	-	165,669
Benefits and claims liabilities	84,813	84,813	-	-	-	-	-	84,813
Total liabilities	5,884,197	2,372,240	410,557	400,929	2,409,803	6,593,654	-	12,187,183
Company								
2012								
Other payables and accruals	135,088	135,088	-	-	-	-	-	135,088

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.3 Market risk

Market risk is the risk of loss arising due to changes in market prices or parameters influencing market prices, and in particular the resultant interest rate guarantee risks from asset liability management or from changes to participations. This includes changes in market prices due to worsening of market liquidity. Market risk comprises of currency risk, interest rate/profit yield risk and equity price risk.

The following risk mitigation actions are in place to control and monitor such risk:

- Investment Committee actively monitors the investment activities undertaken by the Group.
- An Asset-Liability Working Group would recommend the initiatives after balancing competing and legitimate objective of various stakeholders.
- The Investment Policy and Mandate which formulated the single counter limits, group limits and sector limits are in place. Compliance to such limits is monitored monthly and reported to Risk Management Working Committee/Risk Management Committee on a quarterly basis.
- Stress tests are performed as and when needed.
- Stop loss policy is in place.

The Group also issues investment-linked policies in a number of products. In the investment-linked business, the policyholders bear the investment risk on the assets held in the investment-linked funds as the policy benefits are directly linked to the value of the assets in the funds. The Group'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.

39.3.1 Currency risk

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

The Group's primary transactions are carried out in Ringgit Malaysia (RM) and its exposure to foreign currency risk arises principally with respect to US Dollar (USD), Australian Dollar (AUD), Singapore Dollar (SGD), Thai Baht (THB) and Indonesia Rupiah (IDR). As the Group's business is conducted primarily in Malaysia, the Group'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 (RM) as its insurance contract liabilities. Thus, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

As the Group'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, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Group has no significant concentration of foreign currency risk. All foreign currency risk in investment-linked funds is borne by policyholders.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.3 Market risk (continued)

39.3.1 Currency risk (continued)

Exposure to foreign currency risk

The Group's exposure to foreign currency risk, based on carrying amounts as at end of the reporting period was:

Group	Financial assets RM'000	Investment-linked funds RM'000
2013		
Denominated in		
USD	36,185	14,491
AUD	-	25,195
SGD	-	564
THB	-	146
IDR	-	170
2012		
Denominated in		
USD	35,277	13,827
AUD	-	28,158
SGD	-	-
THB	-	-
IDR	-	-

Currency risk sensitivity analysis

A 10% (2012: 10%) strengthening of the Ringgit Malaysia (RM) against the following currencies at the end of the reporting period would have increased/(decreased) the insurance contract liabilities by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted income and expenses.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.3 Market risk (continued)

39.3.1 Currency risk (continued)

Currency risk sensitivity analysis (continued)

Group	Impact on insurance contract liabilities 2013 RM'000	Impact on insurance contract liabilities 2012 RM'000
Denominated in		
USD	(5,068)	(4,910)
AUD	(2,520)	(2,816)
SGD	(56)	-
THB	(15)	-
IDR	(17)	-

A 10% (2012: 10%) weakening of the Ringgit Malaysia (RM) against the above currencies at the end of the reporting period would have equal but opposite effect on the above currencies to the amount shown above, on the basis that all variables remained constant.

The method used for deriving sensitivity information and significant variables did not change from previous year. Only life participating fund and investment-linked funds invested in foreign financial instruments.

39.3.2 Interest rate/profit yield risk

The Group is affected by changes in market interest rates due to the impact of such changes on fair value and will incur an economic loss when the interest rates drop since the duration of policy liabilities is generally longer than the duration of the fixed income financial assets.

Besides the uncertainty of the cash flows of the insurance funds and scarcity of the longer dated instruments, it is not possible to hold assets that will perfectly match the policy liabilities.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.3 Market risk (continued)

39.3.2 Interest rate/profit yield risk (continued)

Interest rate/profit yield risk sensitivity analysis

The analysis below is performed for reasonable possible movements in interest rates with all other variables held constant, showing the impact on the profit before tax, equity and insurance contract liabilities.

Life insurance:

Group	Change in variables	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000
31 December 2013				
Interest rate	+100 basis points	(74,889)	(52,275)	(64,682)
Interest rate	+200 basis points	(142,704)	(99,625)	(123,591)
31 December 2012				
Interest rate	+100 basis points	(41,073)	(29,078)	(33,495)
Interest rate	+200 basis points	(103,608)	(72,945)	(85,543)

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

The above illustration is only prepared for adverse scenario, where interest rate is being raised. The impact on profit before tax would be dependent on whether the interest risk resides in shareholders' fund, life non participating fund or investment-linked funds. Where the interest risk resides in shareholders' fund and life non participating fund, the impact will be directly to profit before tax and equity of the Group. In respect of life participating fund and investment-linked funds, impact arising from changes in interest rate/profit yield risk would affect the insurance contract liabilities.

* Impact on equity reflects adjustments for tax, where applicable.

** The impact on insurance contract liabilities only reflects the changes in the prescribed assumptions above without any adjustment to policyholders' bonuses for the life participating business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

The above sensitivity test would yield proxy results if interest rates were to move in the opposite direction, with the Group.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.3 Market risk (continued)

39.3.2 Interest rate/profit yield risk (continued)

General insurance:

Group	Change in variables	Impact on profit before tax RM'000	Impact on equity* RM'000
31 December 2013			
Interest rate	+ 100 basis points	-	(71,611)
Interest rate	+ 50 basis points	-	(35,805)
31 December 2012			
Interest rate	+ 100 basis points	-	(55,189)
Interest rate	+ 50 basis points	-	(27,594)

* Impact on equity reflects adjustments for tax, where applicable.

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

39.3.3 Equity price risk

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

The Group's equity price risk exposures relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investments securities not held for the account of the investment-linked business.

The Group's equity price risk policy requires it to prioritise capital preservation besides setting limits on overall portfolio, single security and sector holdings. The Group complies with BNM stipulated limits during the financial year and has no significant concentration of equity price risk.

Equity price risk sensitivity analysis

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit before tax, equity and insurance contract liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.3 Market risk (continued)

39.3.3 Equity price risk (continued)

		2013			2012		
Group	Changes in variables	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on insurance contract liabilities** RM'000
Market indices							
Market value	-10%	-	-	(77,733)	-	-	(57,753)
Market value	-20%	-	-	(154,328)	-	-	(112,110)

\# The above illustration is only prepared for adverse scenario, where market price is being moved in an unfavourable direction. The impact on profit before tax would be dependent on whether the market price risk resides in shareholders' fund, life non participating fund, life participating fund or investment-linked funds. Where the market price risk resides in shareholders' fund and life non participating fund, the impact will be directly to profit before tax and equity of the Group. In respect of life participating fund and investment-linked funds, impact arising from changes in market price risk would affect the insurance contract liabilities.

* Impact on equity reflects adjustments for tax, where applicable.

** The impact on insurance contract liabilities only reflects the changes in the prescribed assumptions above without any adjustment to policyholders' bonuses for the life participating business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

The above sensitivity test would yield proxy results if market price were to move in the opposite direction, with the Group.

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

Only life participating fund and investment-linked funds invested in equity securities.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.4 Operational risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Group's objectives resulting from inadequate or failed internal processes and systems, human factors or external events.

The Group puts in place the following controls to monitor and mitigate such risk:

- Effective segregation of duties;
- Access controls, authorisation and reconciliation procedures;
- Automation of processes where possible;
- Staff training; and
- Evaluation procedures such as internal audit.

39.5 Fair value of financial instruments

The Group's and the Company's basis in estimation of fair values for financial instruments is as follows:

- The fair values of structured deposits and forward starting interest rate swap are based on the indicative market prices from the issuing banks.
- The fair values of quoted equity securities of corporations in and outside Malaysia and quoted unit trusts in Malaysia are based on quoted closing market price as at the end of the reporting period.
- The unquoted equity securities of corporations in Malaysia are stated at cost. Where in the opinion of the Directors, there is a decline other than temporary in value of unquoted equity securities, the allowance for impairment is recognised as an expense in the financial year in which the decline is identified.
- The fair values of Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers in Malaysia and unquoted bonds of corporations are based on the indicative market yields obtained from three financial institutions.
- The fair values of unquoted unit trusts in and outside Malaysia are based on the net asset values of the unit trusts as at the date of the statements of assets and liabilities obtained from fund managers.
- The carrying amounts of government policy loans, automatic premium loans and fixed and call deposits are assumed to reasonably approximate their fair values.
- The carrying amounts of cash and cash equivalents, insurance receivables, other receivables and deposits, other financial liabilities, insurance payables, other payables and accruals reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

Estimation of the fair values of Malaysian government securities, Malaysian government guaranteed bonds and loans, Ringgit denominated bonds by foreign issuers in Malaysia, and unquoted bonds of corporations are based on the indicative market yields obtained from three financial institutions which involve projections of the market yields based on past transactions. There are elements of uncertainty in projecting the expected market yields and these uncertainties arise from changes in underlying risk and overall economic conditions. As such, the projected market yields may be different from the actual market yields in future.

It was not practicable to estimate the fair value of the Group's investment in unquoted equity securities due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

39. FINANCIAL RISKS (CONTINUED)

39.5 Fair value of financial instruments (continued)

39.5.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2013										
Financial assets										
Malaysian government securities	-	2,099,250	-	2,099,250	-	669,761	-	669,761	2,769,011	2,779,520
Malaysian government guaranteed bonds	-	832,966	-	832,966	-	522,711	-	522,711	1,355,677	1,376,803
Ringgit denominated bonds by foreign issuers in Malaysia	-	121,642	-	121,642	-	101,848	-	101,848	223,490	221,427
Unquoted bonds of corporations in Malaysia	-	2,113,550	-	2,113,550	-	-	-	-	2,113,550	2,113,550
Quoted equity securities of corporations in Malaysia	795,603	-	-	795,603	-	-	-	-	795,603	795,603
Quoted equity securities of corporations outside Malaysia	880	-	-	880	-	-	-	-	880	880
Quoted unit trusts in Malaysia	52,797	-	-	52,797	-	-	-	-	52,797	52,797
Unquoted unit trusts in Malaysia	-	5,390	-	5,390	-	-	-	-	5,390	5,390
Unquoted unit trusts outside Malaysia	-	50,676	-	50,676	-	-	-	-	50,676	50,676
Forward starting interest rate swap	-	-	-	-	-	-	-	-	-	-
Structured deposits with licensed financial institutions	-	227,719	-	227,719	-	-	-	-	227,719	227,719
Malaysian government guaranteed loans	-	-	-	-	-	260,000	-	260,000	260,000	260,000
	849,280	5,451,193	-	6,300,473	-	1,554,320	-	1,554,320	7,854,793	7,884,365

39. FINANCIAL RISKS (CONTINUED)

39.5 Fair value of financial instruments (continued)

39.5.1 Fair value hierarchy (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2013 (continued)										
Financial liability										
Forward starting interest rate swap	-	20,950	-	20,950	-	-	-	-	20,950	20,950
Company										
2013										
Financial liability										
Advance from holding company	-	-	-	-	-	54,300	-	54,300	-	54,300

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value*		
Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2012							
Financial assets							
Malaysian government securities	-	1,800,499	-	1,800,499	590,812	2,391,311	2,371,325
Malaysian government guaranteed bonds	-	528,651	-	528,651	464,204	992,855	971,840
Ringgit denominated bonds by foreign issuers in Malaysia	-	217,782	-	217,782	112,750	330,532	327,502
Unquoted bonds of corporations in Malaysia	-	1,890,807	-	1,890,807	-	1,890,807	1,890,807

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

39. FINANCIAL RISKS (CONTINUED)

39.5 Fair value of financial instruments (continued)

39.5.1 Fair value hierarchy (continued)

Group	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value* Total RM'000	Total fair value RM'000	Carrying amount RM'000
2012 (continued)							
Quoted equity securities of corporations in Malaysia	554,300	-	-	554,300	-	554,300	554,300
Quoted equity securities of corporations outside Malaysia	-	-	-	-	-	-	-
Quoted unit trusts in Malaysia	84,025	-	-	84,025	-	84,025	84,025
Unquoted unit trusts in Malaysia	-	1,928	-	1,928	-	1,928	1,928
Unquoted unit trusts outside Malaysia	-	49,104	-	49,104	-	49,104	49,104
Forward starting interest rate swap	-	8,946	-	8,946	-	8,946	8,946
Structured deposits with licensed financial institutions	-	217,127	-	217,127	-	217,127	217,127
Malaysian government guaranteed loans	-	-	-	-	260,000	260,000	260,000
	638,325	4,714,844	-	5,353,169	1,427,766	6,780,935	6,736,904
2012							
Financial liability							
Forward starting interest rate swap	-	-	-	-	-	-	-
Company							
2012							
Financial liability							
Advance from holding company	-	-	-	-	-	-	-

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

Notes to the Financial Statements

39. FINANCIAL RISKS (CONTINUED)

39.5 Fair value of financial instruments (continued)

39.5.2 Fair value information

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2012: no transfer in either direction).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

40. CAPITAL MANAGEMENT

Regulatory capital requirements

The Risk Based Capital Framework ("RBC") came into effect on 1 January 2009. Under the RBC Framework, insurance companies need to maintain a capital adequacy level that commensurate with their risk profiles. All insurance companies are required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130% and an internal target capital level determined by BNM. The internal target will include additional capacity to absorb unexpected losses beyond those that are covered under the minimum required CAR.

The insurance subsidiaries of the Group have met their regulatory requirements.

41. SIGNIFICANT EVENT

The Company has entered into an agreement with its life subsidiary, ALIM, to make available to ALIM subordinated loan of up to the aggregate principal amount of RM73.0 million upon the terms and conditions as stipulated in the facility agreement dated 7 January 2013.

Notes to the Financial Statements

42. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follow:

	Group		Company	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Total retained earnings of Allianz Malaysia Berhad and its subsidiaries:				
- Realised	1,331,246	1,104,017	217,439	200,587
- Unrealised	(90,377)	(78,729)	(15)	11
Total retained earnings	1,240,869	1,025,288	217,424	200,598

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant* to *Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

Statement by Directors

pursuant to Section 169 (15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 140 to 257 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 42 on page 258 to the financial statements has been compiled in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant* to *Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

……………………………………………………………

Tan Sri Razali Bin Ismail

……………………………………………………………

Jens Reisch

Kuala Lumpur,
Date: 21 March 2014

Statutory Declaration

pursuant to Section 169 (16) of the Companies Act, 1965

I, **Ong Eng Chow**, the Director primarily responsible for the financial management of Allianz Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 140 to 258 are, to the best of my knowledge and belief, 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 above named in Kuala Lumpur in the Federal Territory on 21 March 2014.

……………..…………………..
Ong Eng Chow

Before me:

Faridah Binti Abdul Hamid
W420
Commissioner for Oaths
Kuala Lumpur

Independent Auditors' Report

to the members of Allianz Malaysia Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Allianz Malaysia Berhad, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Company, and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 140 to 257.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Independent Auditors' Report

to the members of Allianz Malaysia Berhad

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174 (3) of the Act.

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 42 on page 258 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

OTHER MATTER

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Loh Kam Hian
Approval Number: 2941/09/14(J)
Chartered Accountant

Petaling Jaya

Date: 21 March 2014

Form of Proxy

ALLIANZ MALAYSIA BERHAD (12428-W)
(Incorporated in Malaysia)

CDS Account No.	No. of Shares Held	Contact No.

I/We (name of shareholder) ____

NRIC No./Passport No./Company No.______________________(new) of (full address) ______________________

____

being a member of ALLIANZ MALAYSIA BERHAD, hereby appoint:-

Name of Proxy/Proxies	NRIC No./Passport No.	Proportion of Shareholding	
		No. of Shares	%
Address			
*and			
Address			
*or failing him/her			
Address			

as my/our proxy to attend and vote for me/us on my/our behalf at the 40th Annual General Meeting of the Company ("40th AGM") to be held at Junior Ballroom, Level 2, Hotel InterContinental Kuala Lumpur, 165 Jalan Ampang, 50450 Kuala Lumpur on Wednesday, 25 June 2014 at 10.00 a.m. and at any adjournment thereof.

Please indicate with an "X" in the appropriate boxes on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain as he/she thinks fit.

NO.	ORDINARY RESOLUTIONS	FOR	AGAINST
1	Receipt of Audited Financial Statements for the financial year ended 31 December 2013 and the Reports of the Directors and Auditors thereon		
2	Approval for payment of a first and final dividend		
3	Approval for payment of Directors' fees		
4	Re-election of Y. Bhg. Dato' Dr. Thillainathan A/L Ramasamy as Director		
5	Re-election of Mr. Ong Eng Chow as Director		
6	Re-election of Mr. Alexander Cornelius Ioannis Ankel as Director		
7	Re-appointment of Y. Bhg. Tan Sri Razali Bin Ismail as Director		
8	Re-appointment of Messrs KPMG as Auditors and authority to the Directors to fix the Auditors' remuneration		
9	Continuation in office of Mr. Foo San Kan as an Independent Non-Executive Director		
10	Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Allianz SE Group		
11	Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature with Shook Lin & Bok		

As witness my/our hand this _________ day of _______________________ 2014.

____
Signature of shareholder/common seal

Notes

1. For the purposes of determining a member who shall be entitled to attend and vote at the forthcoming 40th AGM of the Company, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at 17 June 2014. Only a depositor whose name appears in the Record of Depositors as at 17 June 2014 shall be entitled to attend and vote at the 40th AGM or appoint proxy/proxies to attend and vote on his/her behalf.
2. A member entitled to attend and vote at the 40th AGM is entitled to appoint not more than two (2) proxies to attend and vote instead of him. If two (2) proxies are appointed, the instrument of proxy must specify the proportion of his shareholdings to be represented by each proxy.
3. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
4. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. The appointment of two (2) proxies in respect of any particular securities account shall be invalid unless the authorised nominee specifies the proportion of its shareholding to be represented by each proxy.
5. Where a member is an exempt authorised nominee ("EAN") as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the EAN may appoint in respect of each omnibus account it holds. The appointment of two (2) or more proxies in respect of any particular omnibus account shall be invalid unless the EAN specifies the proportion of its shareholding to be represented by each proxy.
6. The instrument appointing a proxy/proxies must be in writing under the hand of the appointor or his attorney. If the appointor is a corporation, under its common seal or the hand of its attorney.
7. The instrument of proxy shall be deposited at the Registered Office of the Company at Suite 3A-15, Level 15, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur not later than forty-eight (48) hours before the appointed time for holding the 40th AGM.

Note to Holders of Irredeemable Convertible Preference Share ("ICPS")

The holders of the ICPS shall be entitled to attend the 40th AGM but have no right to vote at the said Annual General Meeting. The voting rights of the ICPS holders are detailed on page 123 of the Annual Report 2013.

Affix Stamp

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Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
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Attention : The Company Secretary

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