

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1298A8/lh

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

CONTENT	PAGES
Directors' Report	1 – 16
Statement by Directors	17
Statutory declaration	17
Independent auditors' report	18 - 21
Financial statements	
Statement of financial position	22 - 23
Statement of income	24
Statement of other comprehensive income	25
Statement of changes in equity	26
Statement of cash flows	27
Notes to the financial statements	28 – 107

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITY

The Company is engaged principally in the underwriting of life insurance business including investment-linked business. There has been no significant change in the nature of this activity during the financial year.

FINANCIAL RESULTS

	RM'000
Loss for the financial year	<u>(45,913)</u>

DIVIDENDS

No dividend has been declared or paid by the Company since the end of the previous financial statements. The Directors do not recommend the payment of any dividend for the current financial year.

RESERVES AND PROVISIONS

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

SHARE CAPITAL

There was no issuance of new ordinary shares during the financial year.

PROVISION FOR INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for Insurers issued by Bank Negara Malaysia ("BNM").

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Company that has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial year.

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

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

CORPORATE GOVERNANCE

The Company, with the leadership of the Board of Directors ("the Board"), has adopted the necessary measures to ensure that the corporate and management practices are consistent with the regulatory requirements and best practice standards ordained under BNM/RH/PD/029-9: Corporate Governance issued by BNM. The Company's policy is to achieve best practices in their business standards for all activities throughout the Company and good corporate governance, which the Board fully recognises to be one of its principal responsibilities to protect and enhance shareholder value and financial performance of the Company.

(a) Key issues and aspects

Key elements of the industry's corporate governance captured by the Frameworks are:

- i. An effective and balanced Board appointed through a predetermined appointment procedure;
- ii. Executive remuneration set by the Remuneration Committee that attracts and retains the people needed to run the Company;
- iii. A sound system of internal controls that safeguards the Company's assets and investments, and identifies and manages business risks; and
- iv. The process in respect to disclosure of conflict of interest situation where arising.

The Company's commitment to the corporate governance standards entails the following:

- i. The Board currently comprises seven directors represented by four independent non-executive, one non-independent non-executive and two executive directors of calibre, with the necessary skills and diverse corporate experience to ensure that strategies proposed by the management are fully discussed and examined as well as to take into account the long term interests of various stakeholders.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(a) Key issues and aspects (continued)

- ii. Executive remuneration is set by the Remuneration Committee. The Company's executive remuneration policy is to reward employees competitively, taking into account individual performance, company performance, market comparisons and the competitiveness in the local insurance industry. Remuneration packages are reviewed annually and comprise a mix of basic salary and performance-linked elements.
- iii. The Board is responsible for the Company's system of internal controls and risk management, and reviewing the effectiveness of these systems which are designed to proactively manage, rather than eliminate, the risk of failure to achieve sustainable business objectives. In achieving this, the following are put in place:
 - the Risk Management Committee which oversees and provides overall direction on risk management efforts;
 - a system of financial and business controls which provides regular reports by the Chief Financial Officer ("CFO") and the Chief Executive Officer ("CEO") to the Board;
 - regular assessments of internal controls by the Company's internal audit department; and
 - review of the effectiveness of the internal control processes by the Audit Committee, on behalf of the Board.

(b) Board responsibilities

The Board is ultimately responsible for the Company's strategic direction and overseeing the performance of the Company. Its focus is on the following:

- i. Strategic plan
- ii. Organisation development
- iii. Shareholder value
- iv. Oversight and control
- v. Corporate governance

(c) Supply of information

The Board is mindful that its strategic focus on matters relating to their business and its exposures should be based on informed decisions. Hence, all the Directors are provided with the meeting agenda and Board reports well ahead of Board meetings. This is to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting. As and when necessary, the Board, in furtherance of their duties may seek independent professional advice at the Company's expense. All the Directors have access to the advice and services of the Company Secretary.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Profile of the Directors

1. Dato' Haji Kamil Khalid Ariff
Independent Non-Executive Director /Chairman

Dato' Haji Kamil Khalid Ariff was appointed as an Independent Non-Executive Director of Uni Asia Life Insurance Bhd (now known as Gibraltar BSN Life Berhad) on 29 September 2011. After the acquisition of the company by Prudential Insurance Company of America ("Prudential") and Bank Simpanan Nasional ("BSN") on 2 January 2014, Dato' Haji Kamil Khalid remained on the board of the new company Gibraltar BSN Life Bhd. He was subsequently appointed Chairman of the company on January 20, 2017. He is currently a member of Board Risk Management, Board Audit, Board Collaboration, Board Nomination and Board Remuneration Committees of the company

Dato' Haji Kamil Khalid Ariff graduated with MBA in International Business from Michigan, USA in 1979. Prior to this, he obtained BSc in Management from Syracuse University, New York and the Diploma in Public Administration from ITM. His last position was as Managing Director/Chief Executive Officer of Mahkota Technologies Sdn Bhd (formerly known as General Electric Company of the UK) - dealing mainly in the electrical engineering/supply industry. Upon his recent retirement he was appointed Chairman/Director of several other private companies.

In the last 30 years, he served in numerous Management and Board positions in several large corporate entities viz, The New Straits Times, Kumpulan Perangsang Selangor Bhd, Kumpulan Guthrie Bhd and Idris Hydraulic Bhd. During this time, he was exposed to various multi facet industries viz, Advertising & Publishing, Trading, Manufacturing and Engineering. He was also a founder Director of the Kuala Lumpur Tin Market, which he, as part of a Government Steering Committee, helped set up in the mid-1980s.

Dato' Haji Kamil Khalid is also Chairman of Liberty Insurance Berhad and sits on the Board of Bank Muamalat Malaysia Berhad, Gibraltar BSN Holdings Sdn Bhd and Awan Inspirasi as an Independent Director.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Profile of the Directors (continued)

2. Dato' Danapalan A/L T.P. Vinggrasalam
Independent Non-Executive Director

Dato' Danapalan A/L T.P. Vinggrasalam was appointed to the Board of Gibraltar BSN Life Berhad on 2 January 2014 as an Independent Non-Executive Director. He is the Chairman of Board Risk Management, Board Remuneration and Board Collaboration Committees. He is also a member of the Board Audit and Board Nomination Committees.

Dato' Danapalan holds a Bachelor of Arts (Honours) from University of Malaya and a Master of Public Administration from Penn State University, USA.

He started his career with the Malaysian Administrative and Diplomatic Services in 1966. He served over 30 years in government service. He held many positions including Secretary of the Royal Commission on the Teaching Services, Deputy Secretary-General of the Ministry of Social and Community Development and Deputy Director of INTAN. In 1991, he was appointed as the Secretary General of Ministry of Science, Technology and the Environment until his retirement in March 1998. From June 1998 to 2004 he served as Senior Vice President of the Multimedia Development Commission. From 2004 to 2006 Dato' Danapalan was the Chairman and Chief Executive Officer of Malaysian Communication and Multimedia Commission (MCMC).

Dato' Danapalan is currently a Director of Sirim QAS International Sdn Bhd (a subsidiary of SIRIM Berhad) and a member of the Board of Trustees of Maybank Foundation and Tun Sambanthan Scholarship Fund. Prior to this he was a Senior Independent Director of Telekom Malaysia Berhad and held directorships in wholly owned subsidiaries of Telekom Malaysia. He has also served on the boards of Bank Simpanan, Affin Fund and MUST University.

3. Mr Ramesh Pillai
Independent Non-Executive Director

Mr Ramesh Pillai was appointed to the Board of Gibraltar BSN Life Berhad on 1 July 2016 as an Independent Non-Executive Director. He is a member of Board Risk Management, Board Audit and Board Collaboration Committees.

Mr Ramesh started his career with Price Waterhouse's Financial Institutions in London gaining experience in Audit, Consultancy and Corporate Finance assignments. He has over 30 years of risk management experience, both in the public and private sector and has held various positions, including that of CEO, Finance Director and Group Chief Risk Officer (in Conventional and Islamic Banks). He was also with Pengurusan Danaharta Nasional as its Chief Risk Officer as well as Bank Negara Malaysia as the Head of its Deposit Insurance Taskforce.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Profile of the Directors (continued)

3. Mr Ramesh Pillai
Independent Non-Executive Director (continued)

Mr Ramesh is currently the Chairman of the Board of Governors of the Institute of Enterprise Risk Practitioners (providing professional certification in Enterprise Risk Management) as well as the Group Managing Director of Friday Concepts (International), an International Boutique Risk Management consultancy. He is also an Independent Non-Executive Director of AmInvestment Bank Berhad and AmGeneral Insurance Berhad.

Mr Ramesh holds a Bachelor of Science (Honours) in Economics with Accountancy from Loughborough University, United Kingdom, where he specialized in Economics and Banking in general, and Islamic Banking in particular. He is a fellow of the Institute of Chartered Accountants in England and Wales (1991) as well as the Malaysian Institute of Accountants, a Certified Enterprise Risk Manager, a Certified Risk Professional, a Qualified Risk Director, a certified Islamic Enterprise Risk Manager and a Qualified Risk Auditor.

4. Mr Oh Teik Tatt
Independent Non-Executive Director

Mr Oh Teik Tatt was appointed to the Board of Gibraltar BSN Life Berhad on 24 January 2017 as an Independent Non-Executive Director. He is the Chairman of Board Audit and Board Nomination Committees and a member of Board Risk Management, Board Collaboration and Board Remuneration Committees.

He is a graduate in Agricultural Science from University of Malaya, and was the Managing Director of Tractors Malaysia Holdings Berhad for 11 years until his retirement in 2004. He was the Chairman of Landmarks Bhd, and is on the Board of a number of companies.

5. Datuk Adinan bin Maning
Non-Independent Non-Executive Director

Datuk Adinan bin Maning was appointed as a Non-Independent Non-Executive Director of Gibraltar BSN Life Berhad on 2 January 2014. He is a member of the Board Remuneration Committee.

Datuk Adinan has been the Chief Executive of Bank Simpanan Nasional since November 2007 until his retirement on 30 November 2017.

Datuk Adinan started his career in Bank Bumiputera Malaysia Berhad (BBMB) in the early 1980s where he served the bank for 18 years and was attached to various departments of the bank.

In late 1998, Datuk Adinan left Bank Bumiputera Malaysia Berhad to assume the post of Chief Executive Officer of a property development company. In 2005, he joined Kuantan Flour Mills Berhad as Chief Executive Officer, holding the position until 31 December 2005. He then joined Prokhas, a private limited company wholly-owned by Minister of Finance as its General Manager, Operations until December 2007.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Profile of the Directors (continued)

6. Datuk Adinan bin Maning
Non-Independent Non-Executive Director (continued)

Datuk Adinan was formerly the Chairman of BSNC Corporation Berhad, a board member of Permodalan BSN Berhad, Prudential BSN Takaful Berhad and companies within the BSN Group until his retirement. He is also a board member of World Savings Bank Institute (WSBI).

Datuk Adinan resigned as member of the Board of Company on 30 November 2017.

7. Mr Tim Oommen Thomas
Executive Director

Mr Tim Oommen Thomas was appointed as Non-Independent Non-Executive Director of Gibraltar BSN Life since 2 Jan 2014. He was redesignated as Executive Director in 2016.

He holds a Masters in Business Administration from Melbourne Business School as well as Bachelor of Laws and Bachelor of Commerce, both from University of Melbourne.

He has over 20 years of financial services management experience in leading multi-nationals. Mr Thomas has bancassurance expertise and diverse experience in growing life insurance businesses in developing markets. This includes careers with Medibank Private (Australia's largest health fund), Commonwealth Bank of Australia (Colonial Limited, CMG Asia) and AXA, where he lead the establishment of AXA's business in India and was in variety of regional and home office roles.

Mr Tim Oommen Thomas resigned as a member of the Board on 31 August 2017.

8. Mr Jonathan Graybill
Executive Director

Mr Jonathan Graybill was appointed as an Executive Director of Gibraltar BSN Life Berhad on 18 September 2017. Mr Graybill is the President, Asia (ex-Japan) Region responsible for Prudential International Insurance's ("PII") businesses in Korea, Malaysia, Indonesia and Taiwan as well as the regional office in Singapore.

Prior to moving to Singapore in August 2016, Mr Graybill served as the Chief Operations Officer of Prudential International Insurance ("PII") where he supported the operations and technology organizations in twelve countries and fourteen businesses.

In his over twenty-nine-year career at Prudential, he has held leadership positions in various Operations and Technology functions in U.S. Annuities, Retirement Services and Individual Life. He was responsible for Policyholder Administration in the Individual Life Business. This included the post-sale service provided to approximately nine million policyholders through operations centres located in the United States, India and the Philippines. In addition to his O&S expertise, Mr Graybill has deep experience in Business Continuation, Information Security and Vendor Management.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Profile of the Directors (continued)

8. Mr Jonathan Graybill
Executive Director (continued)

Mr Graybill holds a Bachelor of Science in Finance from Pennsylvania State University and a Master of Business Administration from Temple University.

9. Mr Michael Scott Fisher
Executive Director

Mr Michael Scott Fisher was appointed as an Executive Director of Gibraltar BSN Life Berhad on 24 January 2017. He is Vice President and Chief Risk Officer for Prudential International Insurance ("PII"). Mr Fisher joined Prudential in 1986 and has been a member of PII since 1990.

Prior to his current role, Mr Fisher spent five years working on a variety of strategic initiatives including the U.S. lead on the acquisition and integration of Star Life & Edison Life into Gibraltar Life in Japan. Mr Fisher served as the Risk Officer of PII from 2004 – 2009 and was instrumental in developing and implementing a formal risk based Control Assessment Protocol across all PII operations. Earlier in his career Mr Fisher served in a variety of roles in Finance, including PII Controller from 1997 – 2001. He also led the implementation of the Sarbanes-Oxley compliance in PII.

He earned a Bachelor of Science degree in Industrial Management from Carnegie Mellon University.

Mr Fisher serves as a Director of Prudential Holding Japan, Gibraltar Life Japan and Prudential of Japan.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

- (e) The Board meetings and attendance for the financial year ended 31 December 2017 are as follows:

<u>Name of Directors</u>	<u>Number of Board meetings (Attended/Held)</u>
Dato' Haji Kamil Khalid Ariff (<i>designated as Chairman on 20 January 2017</i>)	7 / 7
Dato' Danapalan A/L T.P. Vinggrasalam	7 / 7
Ramesh Pillai	6 / 7
Oh Teik Tatt (<i>appointed on 24 January 2017</i>)	6 / 7
Michael Scott Fisher (<i>appointed on 24 January 2017</i>)	6 / 7
Jonathan Graybill (<i>appointed on 18 September 2017</i>)	2 / 7
Benett Maximillian Theseira (<i>resigned on 24 January 2017</i>)	-
Jan van den Berg (<i>resigned on 24 January 2017</i>)	-
John Sneddon McConnachie (<i>resigned on 24 January 2017</i>)	-
Tim Oommen Thomas (<i>resigned on 31 August 2017</i>)	4 / 7
Datuk Adinan Bin Maning (<i>resigned on 30 November 2017</i>)	6 / 7

- (f) Appointment/re-appointment of Directors

The appointment/re-appointment of the Directors is based on the Company's Articles of Association. All the Directors who are appointed by the Board are subject to re-election every succeeding year; thereafter one-third of the Directors (being those who have been longest in office) shall be retired or re-elected.

- (g) Directors' training

All Directors except Mr Jonathan Graybill, who was appointed on 18 September 2017, have attended and completed the mandatory FIDE Core Training Program within one year from their date of appointment as required under the terms of their appointment imposed by BNM. Mr Graybill will be attending the mandatory FIDE Core Training Program scheduled in 2018.

The Directors are encouraged to attend continuous education programs and seminars to keep abreast with developments in the industry. The Company has established a mechanism for all the Directors to be kept abreast of changes and new legal and regulatory requirements on a regular basis. The Company also keeps a record of the Directors' training programs and attendance to the said programme.

During the year, in-house briefings were conducted by representatives from KPMG and Abdullah Chan in Association with Child & Child where the Directors were briefed and discussions held on the following matters:-

- (i) Enterprise Risk Awareness Training
- (ii) Corporate Governance Training

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(h) Directors' responsibility statement with respect to the financial statements.

The Directors are required by the Companies Act, 2016 to prepare financial statements for each financial year which have been made out in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and comply with the requirements of the Companies Act, 2016 in Malaysia and give a true and fair view of the state of affairs of the Company at the end of the financial year and of the results and cash flows of the Company for the financial year.

In preparing the financial statements, the Directors have:

- adopted suitable accounting policies and applied them consistently; and
- made judgements and estimates that are reasonable and prudent; and
- ensured that all applicable accounting standards have been followed; and
- prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors have the responsibility for ensuring that the Company keeps accounting records which disclose, with reasonable accuracy, the financial position of the Company and to ensure that the financial statements comply with the requirements of the Companies Act, 2016 in Malaysia.

The Directors have overall responsibility to take steps to safeguard the assets of the Company and to prevent and detect fraud and irregularities.

(i) Financial reporting

In presenting the annual financial statements, the Directors aim to present a balanced and understandable assessment of the Company's position and prospects.

(j) Board Committees

The Board has assigned specific responsibilities to six (6) Board committees (Audit, Remuneration, Nomination, Risk Management, Collaboration and Investment Committees), details of which are set out below. These committees 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 Board.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(k) Audit Committee

The Audit Committee meetings and attendance for the financial year ended 31 December 2017 are as follows:

<u>Name of Directors</u>	<u>Number of Audit meetings (Attended/Held)</u>
Oh Teik Tatt (<i>designated as Chairman on 7 February 2017</i>)	5 / 5
Dato' Haji Kamil Khalid Ariff	5 / 5
Dato' Danapalan A/L T.P. Vinggrasalam	5 / 5
Ramesh Pillai	5 / 5

The Audit Committee reviews the Company's accounting policies, systems of internal controls and risk management, reports from the Company's internal and external auditors and determines that appropriate actions are being taken by the management. Its conclusions are reported to the Board, which takes responsibility for the Company's system of internal controls.

The Audit Committee also considers the Company's published financial statements for statutory compliance and best practice standards, and recommends to the Board appropriate disclosure in these reports. It also reviews the performance of the Company's external auditors annually to ensure an objective, professional and cost-effective relationship. It recommends to the Board the external auditors fees for their audit services.

(l) Remuneration Committee

The Remuneration Committee meetings and attendance for the financial year ended 31 December 2017 are as follows:

<u>Name of Directors</u>	<u>Number of Remuneration meetings (Attended/Held)</u>
Dato' Danapalan A/L T.P. Vinggrasalam (<i>designated as Chairman on 7 February 2017</i>)	2 / 2
Dato' Haji Kamil Khalid Ariff	2 / 2
Oh Teik Tatt (<i>appointed on 24 January 2017</i>)	1 / 2
Datuk Adinan bin Maning (<i>resigned on 30 November 2017</i>)	2 / 2

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(l) Remuneration Committee (continued)

The Remuneration Committee recommends the remuneration policy for the Directors, the CEO and senior management reporting to the Board. Specifically, the Remuneration Committee agrees their service/employment contracts, salaries, other benefits, including bonuses and participation in the Company's long-term incentive plans, and other terms and conditions of service/employment.

It also agrees terms for their cessation of service/employment, approves changes in the Company's long term incentive plans, recommends to the Board those plans which require shareholder approval and oversees their operations.

Remuneration of the Directors and the CEO

The aggregate remuneration of the Directors and the remuneration of the CEO have been disclosed in Note 24 to the financial statements, meeting the minimum requirement of BNM/RH/STD 032-5.

(m) Nomination Committee

The Nomination Committee meetings and attendance for the financial year ended 31 December 2017 are as follows:

<u>Name of Directors</u>	<u>Number of Nomination meetings (Attended/Held)</u>
Oh Teik Tatt (<i>designated as Chairman on 7 February 2017</i>)	3 / 4
Dato' Haji Kamil Khalid Ariff	4 / 4
Dato' Danapalan A/L T.P. Vinggrasalam	4 / 4
Tim Oommen Thomas (<i>resigned on 31 August 2017</i>)	1 / 4
Jonathan Graybill (appointed on 18 December 2017)	-

The Nomination Committee recommends to the Board the appointments of all Directors, Senior Management and regularly reviews profile of the skills and attributes required from the Directors as a whole to ensure an appropriate balance of expertise and ability. This profile is used to assess the suitability of candidates put forward by the Directors and shareholders.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(n) Risk Management Committee

The Risk Management Committee meetings and attendance for the financial year ended 31 December 2017 are as follows:

<u>Name of Directors</u>	<u>Number of Risk meetings (Attended/Held)</u>
Dato' Danapalan A/L T.P. Vinggrasalam (<i>designated as Chairman on 7 February 2017</i>)	4 / 4
Dato' Haji Kamil Khalid Ariff	4 / 4
Ramesh Pillai	4 / 4
Oh Teik Tatt (<i>appointed on 24 January 2017</i>)	4 / 4

The roles of the Risk Management Committee are:

- to oversee the development of risk management capabilities and development of an acceptable risk culture for the Company; and
- to review the completeness of risk identification, assessment, controls and the managing of risks on a group-wide basis and assess their effectiveness on a regular basis; and
- to oversee the development of general risk policies and procedures, and to monitor and evaluate their effectiveness; and
- to oversee the implementation of a risk management framework in a manner that is consistent with the overall risk management objectives of the Company.

(o) Collaboration Committee

The Collaboration Committee meetings and attendance for the financial year ended 31 December 2017 are as follows:

<u>Name of Directors</u>	<u>Number of Collaboration meetings (Attended/Held)</u>
Dato' Danapalan A/L T.P. Vinggrasalam (<i>designated as Chairman on 7 February 2017</i>)	4 / 4
Dato' Haji Kamil Khalid Ariff	4 / 4
Ramesh Pillai	4 / 4
Oh Teik Tatt (<i>appointed on 24 January 2017</i>)	3 / 4

The role of the Collaboration Committee is to report risk(s) and/or issue(s) of concern to the appropriate Board Risk Management and/or Audit Committee so that appropriate action(s) can be taken in addressing the concern(s) raised.

The Collaboration Committee was dissolved on 1 January 2018.

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(p) Investment Committee

The Investment committee was dissolved on 7 February 2017.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the Directors in office at the end of the financial year did not hold any interest in shares and options over shares in the Company or shares and debentures of its related corporations during the financial year.

DIRECTORS' BENEFITS

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

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

There is no indemnity given to or insurance affected for director, officer or auditor of the Company during the financial year.

ULTIMATE HOLDING COMPANY

The Directors regard Gibraltar BSN Holdings Sdn. Bhd., as the immediate holding company; Prudential Financial, Inc. ("PFI"), as the ultimate holding company and The Prudential Insurance Company of America ("PICA"), as the penultimate holding company. PFI and PICA are incorporated in the United States of America.

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

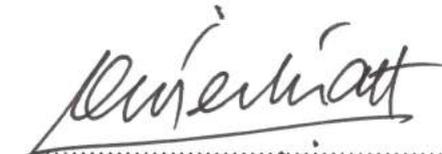
PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

Details of auditors' remuneration are set out in Note 24 to the financial statements.

Signed on behalf of the Board in accordance with their resolution dated 23 February 2018.



.....
DATO' HAJI KAMIL KHALID ARIFF
CHAIRMAN



.....
OH TEIK TATT
DIRECTOR

Kuala Lumpur, Wilayah Persekutuan

Company No.

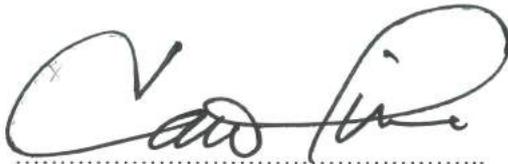
277714	A
--------	---

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

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

We, Dato' Haji Kamil Khalid Ariff and Oh Teik Tatt, two of the Directors, state that, in the opinion of the Directors, the financial statements set out on pages 22 to 107 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2017 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 23 February 2018.



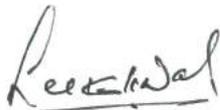
DATO' HAJI KAMIL KHALID ARIFF
CHAIRMAN



OH TEIK TATT
DIRECTOR

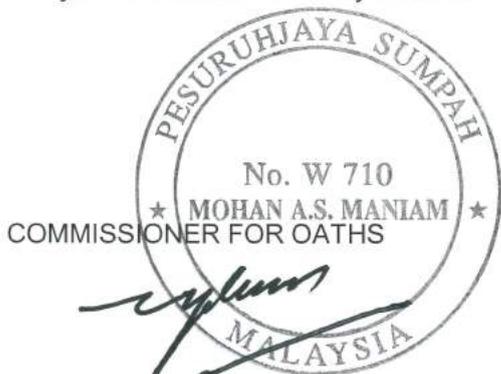
**STATUTORY DECLARATION PURSUANT TO
SECTION 251 (1) OF THE COMPANIES ACT, 2016**

I, Lee Kok Wah, the officer primarily responsible for the financial management of Gibraltar BSN Life Berhad, do solemnly and sincerely declare that, the financial statements set out on pages 22 to 107 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



LEE KOK WAH

Subscribed and solemnly declared by the abovenamed Lee Kok Wah at Kuala Lumpur, Wilayah Persekutuan in Malaysia on 23 February 2018, before me.



Tingkat 20 Ambank Group Building
55, Jln. Raja Chulan, 50200 Kuala Lumpur



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)
(Company No. 277714 A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Gibraltar BSN Life Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its 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, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2017, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 28 to 53.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

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

.....
*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my*

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 02.01.2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF GIBRALTAR BSN LIFE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 277714 A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF GIBRALTAR BSN LIFE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 277714 A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF GIBRALTAR BSN LIFE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 277714 A)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP 0014401-LCA & AF1146
Chartered Accountants

WONG HUI CHERN
(No. 3252/05/18 (J))
Chartered Accountant

Kuala Lumpur

Company No.

277714	A
--------	---

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
ASSETS			
Properties and equipment	3	10,421	27,473
Investment property	4	5,500	6,200
Intangible assets	5	9,255	9,626
Prepaid lease property	6	231	234
Investments	7	2,237,072	2,079,481
Held-to-maturity financial assets ("HTM")		296,435	307,493
Loans and receivables ("LAR")		184,640	225,970
Available-for-sale financial assets ("AFS")		1,277,285	1,150,693
Fair value through profit and loss financial assets ("FVTPL")		478,712	395,325
Reinsurance assets	8	16,045	19,466
Insurance receivables	9	7,970	15,945
Other receivables	10	15,351	27,294
Tax recoverable		-	3,201
Cash and cash equivalents		6,179	28,373
TOTAL ASSETS		2,308,024	2,217,293

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

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017 (CONTINUED)

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
EQUITY AND LIABILITIES			
Share capital	11	125,000	125,000
Retained earnings	12 (a)	234,365	277,971
Available-for-sale fair value reserves	12 (b)	(585)	(832)
Asset revaluation reserves	12 (b)	318	2,625
TOTAL EQUITY		<u>359,098</u>	<u>404,764</u>
Insurance contract liabilities	13	1,808,763	1,629,297
Deferred tax liabilities	14	36,225	48,123
Insurance payables	15	62,368	93,687
Tax payable		972	-
Other payables	16	40,598	41,422
TOTAL LIABILITIES		<u>1,948,926</u>	<u>1,812,529</u>
TOTAL EQUITY AND LIABILITIES		<u>2,308,024</u>	<u>2,217,293</u>

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
Operating revenue	17	<u>391,515</u>	<u>396,619</u>
Gross premiums	18 (a)	295,764	306,292
Premiums ceded to reinsurers	18 (b)	<u>(10,111)</u>	<u>(14,665)</u>
Net premiums		<u>285,653</u>	<u>291,627</u>
Investment income	19	95,751	90,327
Realised gains	20	28,280	13,326
Fair value gains/(losses)	21	29,894	(17,852)
Other operating income	22	1,991	2,089
Other income		<u>155,916</u>	<u>87,890</u>
Gross benefits and claims	23 (a)	(202,399)	(283,121)
Claims ceded to reinsurers	23 (b)	8,103	10,351
Gross change in contract liabilities	23 (c)	(151,978)	50,003
Change in contract liabilities ceded to reinsurers	23 (d)	<u>(1,762)</u>	<u>8,033</u>
Net insurance benefits and claims		<u>(348,036)</u>	<u>(214,734)</u>
Fee and commission expenses		(13,146)	(20,167)
Management expenses	24	<u>(128,991)</u>	<u>(127,785)</u>
Other expenses		<u>(142,137)</u>	<u>(147,952)</u>
(Loss)/profit before taxation		(48,604)	16,831
Income tax expense attributable to participating fund and unit holders		<u>(5,858)</u>	<u>(2,438)</u>
(Loss)/profit before tax attributable to shareholders		<u>(54,462)</u>	<u>14,393</u>
Tax benefit/(expense)	25	<u>2,691</u>	<u>(7,409)</u>
Tax expense attributable to participating fund and unit holders		<u>5,858</u>	<u>2,438</u>
Tax benefit/(expense) attributable to shareholders		8,549	(4,971)
(Loss)/profit for the financial year		<u>(45,913)</u>	<u>9,422</u>
Basic (loss)/earnings per share (sen)	26	<u>(36.73)</u>	<u>7.54</u>

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
(Loss)/profit for the financial year		<u>(45,913)</u>	<u>9,422</u>
Other comprehensive (loss)/income:			
<u>Item that may be subsequently reclassified</u> <u>to statement of income:</u>			
Available-for-sale fair value reserves			
- Gross fair value changes	7(e)	(46)	945
- Taxation	14	(58)	(171)
Change in insurance contract liabilities arising from			
- Fair value changes in available-for-sale assets	13	382	(404)
- Taxation	13	(31)	32
		<u>247</u>	<u>402</u>
<u>Item that may not be subsequently reclassified</u> <u>to statement of income:</u>			
Gross (deficit)/surplus from revaluation of properties and equipment		(700)	1,300
Taxation	14	-	(51)
Change in insurance contract liabilities arising from			
- Surplus/(deficit) from revaluation of properties and equipments	13	700	(1,046)
		<u>-</u>	<u>203</u>
Total comprehensive (loss)/income for the financial year		<u>(45,666)</u>	<u>10,027</u>

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

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	Share capital RM'000	Assets revaluation reserves RM'000	Non-distributable		Distributable	Total RM'000
			Available for-sale fair value reserves RM'000	Life non participating surplus * RM'000	Retained earnings RM'000	
As at 1 January 2017	125,000	2,625	(832)	193,908	84,063	404,764
Reclassification of asset revaluation reserves to retained earnings	-	(2,307)	-	2,307	-	-
Other comprehensive income for the financial year	-	-	247	-	-	247
(Loss)/profit for the financial year	-	-	-	(48,542)	2,629	(45,913)
At 31 December 2017	<u>125,000</u>	<u>318</u>	<u>(585)</u>	<u>147,673</u>	<u>86,692</u>	<u>359,098</u>
As at 1 January 2016	125,000	2,422	(1,234)	187,834	80,715	394,737
Other comprehensive income/(loss) for the financial year	-	203	402	-	-	605
Profit for the financial year	-	-	-	6,074	3,348	9,422
At 31 December 2016	<u>125,000</u>	<u>2,625</u>	<u>(832)</u>	<u>193,908</u>	<u>84,063</u>	<u>404,764</u>

* The Life non-participating surplus amount is net of deferred tax. This amount is restricted for distribution until the actual recommended transfer from the life fund into the shareholders' fund by the Appointed Actuary in accordance with the Financial Services Act, 2013.

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
OPERATING ACTIVITIES			
Cash used in operating activities	27	(125,970)	(73,080)
Dividend income received		10,902	10,097
Interest/profit income received		84,547	77,601
Rental income on investment property received		285	302
Income tax paid		(3,999)	(1,000)
Net cash flow (used in)/generated from operating activities		<u>(34,235)</u>	<u>13,920</u>
INVESTING ACTIVITIES			
Proceeds from disposal of properties and equipment		17,462	275
Proceeds from disposal of intangible asset		1	-
Purchase of properties and equipment		(2,392)	(2,770)
Purchase of intangible assets		(3,030)	(5,904)
Net cash flow generated from/(used in) investing activities		<u>12,041</u>	<u>(8,399)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		28,373	22,852
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>6,179</u>	<u>28,373</u>
Cash and cash equivalents comprise:			
Cash and bank balances		<u>6,179</u>	<u>28,373</u>
		<u>6,179</u>	<u>28,373</u>

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 PRINCIPAL ACTIVITIES AND CORPORATE INFORMATION

The Company is engaged principally in the underwriting of life insurance business including investment-linked business. There has been no significant change in the nature of this activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 6, Bangunan Gibraltar BSN, 16, Jalan Tun Tan Siew Sin, 50050 Kuala Lumpur.

The principal place of business of the Company is located at Bangunan Gibraltar BSN, 16, Jalan Tun Tan Siew Sin, 50050 Kuala Lumpur.

The financial statements were authorised for issue by the Board in accordance with a resolution of the Directors dated 23 February 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company for the financial year ended 31 December 2017 have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the requirements of the Companies Act, 2016 in Malaysia.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. It also requires the Board to exercise its judgment in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual result may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.27 to the financial statements.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 The Company has applied the following amendments for the first time for the financial year beginning on 1 January 2017:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 12 'Disclosures of Interests in Other Entities'

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New accounting standards, amendments and improvements to published standards and interpretations to the existing standards that are applicable to the Company but not yet effective:

- Amendments to MFRS 140 'Classification on 'Change in Use' – Assets transferred to, or from, Investment Properties' (effective from 1 January 2018) clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property.

The amendments also clarify the same principle applies to assets under construction.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

New accounting standards, amendments and improvements to published standards and interpretations to the existing standards that are applicable to the Company but not yet effective: (continued)

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New accounting standards, amendments and improvements to published standards and interpretations to the existing standards that are applicable to the Company but not yet effective (continued):

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New accounting standards, amendments and improvements to published standards and interpretations to the existing standards that are applicable to the Company but not yet effective (continued):

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New accounting standards, amendments and improvements to published standards and interpretations to the existing standards that are applicable to the Company but not yet effective (continued):

- MFRS 17 “Insurance Contracts (effective from 1 January 2021) replaces MFRS 4 “Insurance Contracts”

MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 “Revenue”. An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be ‘unbundled’ and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (“CSM”) representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that related to financial risks either in profit or loss or in other comprehensive income.

Alternative measurement models are provided for the different insurance coverages:

- Simplified Premium Allocation Approach if the insurance coverage period is a year or less
- Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

The Company has not fully assessed the impact of MFRS 17 on its financial statements.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New accounting standards, amendments and improvements to published standards and interpretations to the existing standards that are applicable to the Company but not yet effective: (continued)

- Amendments to MFRS 4 - Applying MFRS 9 'Financial Instruments' with MFRS 4 'Insurance Contracts' effective for annual periods beginning on or after 1 January 2018.

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 "Financial Instruments" before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for entities: (i) a temporary exemption from MFRS 9 for entities that meet specific requirements; and (ii) the overlay approach. Both approaches are optional.

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies MFRS 9 for the first time.

The Company's business activity is predominately insurance and hence, qualifies for the temporary exemption approach. Consequently, management has decided to apply the temporary exemption from MFRS 9 from its annual period beginning 1 January 2018 and will adopt MFRS 9 for its annual period beginning 1 January 2021.

The Company is reviewing the adoption of the above accounting standards, amendments to published standards and interpretation to existing standards and the potential impact to the prevailing accounting policies, and will complete the process prior to the reporting requirement deadline.

The Company will apply these standards when effective. The adoption of the above standards, amendments and improvements to published standards and interpretations to existing standards are not expected to have any significant impact on the financial statements of the Company, except for MFRS 9, MFRS 16, MFRS 17 and enhanced disclosures from amendments to MFRS 4.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Properties and equipment

Properties and equipment are initially stated at cost. Land and building are subsequently revalued, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation and impairment losses. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other properties and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred.

The surplus arising on revaluation is credited to the revaluation reserves except that a surplus, to the extent that such surplus is related to and not greater than a deficit arising on revaluation previously recorded as an expense, is credited to statement of income. A deficit arising from revaluation is recognised as an expense except that, to the extent that such a deficit is related to a surplus which was previously recorded as a credit to the asset revaluation reserves account and which has not been subsequently reversed or utilised, it is charged directly to the revaluation reserves.

Freehold land is not depreciated as it has an infinite life. Other properties and equipment are depreciated on a straight line basis to write off the cost of the assets, or their revalued amounts, to their residual values over their estimated useful lives, summarised as follows:

Freehold building	50 years
Motor vehicles	5 years
Office equipment	4 years
Computers	3 years
Furniture fittings and renovation	5 years

Leasehold buildings are depreciated over the remaining lease term of the leasehold land on which the building resides.

Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Properties and equipment (continued)

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.24 to the financial statements on impairment of assets.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the statement of income. On disposal of revalued assets, the revaluation reserves relating to those assets are transferred to retained earnings and/or unallocated surplus.

2.3 Intangible assets – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives of 5 years.

2.4 Investment property

Investment property, comprising principally land and office building, is held for long term rental yields or for capital appreciation or both, and is not occupied by the Company.

Investment property is initially stated at cost and subsequently carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment property is reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying value of the investment property differs materially from the fair value. Changes in fair values are recorded in the statement of income as part of other income.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised (eliminated from the statement of financial position). The difference between the net disposal proceeds and the carrying amount is recognised in the statement of income in the period of the retirement or disposal.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Prepaid lease property

Payment for rights to use land over the predetermined period is classified as prepaid lease property and is stated at cost less accumulated amortisation and accumulated impairment. The prepaid lease property are amortised on a straight line basis over the lease periods of up to 99 years.

2.6 Insurance receivables

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

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in statement of income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.24 to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.23 to the financial statements, have been met.

2.7 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

2.8 Payables

Trade and other payables are classified as current liabilities if payment is due within one year or less.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.9 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Borrowings

Borrowings are recognised initially at the amount of proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings.

Interest relating to borrowings is reported within finance costs in the statement of income.

2.11 Share capital

Proceeds from ordinary shares issued are accounted for as equity, with the nominal value of the share being separately disclosed as share capital. Costs directly attributable to the issuance of new ordinary shares are accounted for as a deduction from equity.

2.12 Contingent liabilities and contingent assets

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

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Company pays fixed contributions to the state pension scheme, the Employees Provident Fund ("EPF").

The Company's contributions to defined contribution plans are charged to the statement of income in the financial year to which they relate. Once the contributions have been made, the Company has no further payment obligations.

(iii) Share-based compensation

The Company participates in share-based compensation plans granted to certain senior management employees of the Company as consideration for services rendered.

(i) Equity-settled share based compensation

The fair value of equity settled, share-based compensation granted to employees as at the grant date is recognised in the income statement over the vesting periods of the grant based on the closing price of the holding company, Prudential Financial, Inc. stock on grant date.

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

(ii) Cash-settled share-based compensation

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Product classification

The Company issues contracts that transfer insurance risk or financial risk or both.

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

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. The Company defines insurance risk to be significant when the ratio of the insurance risk over the deposit component is not less than 105% of the deposit component at any point of the insurance contract in force.

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

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

Based on the Company's assessment, all contracts underwritten by the Company meet the definition of insurance contracts and accordingly are classified as insurance contracts.

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 supplement to guaranteed benefits, additional benefits that are:

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Product classification (continued)

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. The amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the Appointed Actuary. All DPF liabilities, including unallocated surpluses both guaranteed and discretionary, at the end of the reporting year are held within insurance liabilities.

Surpluses in the non-DPF funds are attributable wholly to the shareholders and the amount and timing of distribution to shareholders is subject to the advice of the Company's Appointed Actuary.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is 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 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 bases as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

2.15 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision 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 Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Life insurance contract liabilities

Life insurance contract liabilities comprise:

- (i) Actuarial liabilities
- (ii) Unallocated surplus of DPF contracts
- (iii) Claims liabilities
- (iv) Available-for-sale fair value reserves
- (v) Asset revaluation reserves
- (vi) Net asset value attributable to unit holders

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The valuation of life insurance contract liabilities is determined according to BNM's RBC Framework as summarised below.

Participating fund insurance contract liabilities

Participating plans are valued using a prospective actuarial valuation based on the sum of the present value of future guaranteed and 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 participating life insurance liability is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities.

Non-participating fund insurance contract liabilities

The liability of non-participating life plans is valued using a prospective actuarial valuation based on the sum of the present value of future 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.

Investment-linked fund insurance contract liabilities

The liability is the sum of:

- (i) The unit reserves, calculated as the value of the underlying assets backing the units relating to the policy; and
- (ii) The non-unit reserves are determined by projecting future cashflows to ensure that all future outflows can be met without recourse to additional finance or capital support at any future time during the duration of the investment-linked policy.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Life insurance contract liabilities (continued)

Unallocated surplus

Surpluses in the DPF are distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. The Company, however, has the discretion over the amount and timing of the distribution of these surpluses to policyholders and shareholders. Surpluses in the non-DPF fund are attributable wholly to the shareholders and the amount and timing of the distribution to the shareholders is subject to the advice of the Company's Appointed Actuary.

Liability adequacy test

BNM Guidelines on Financial Reporting for Insurers (BNM/RH/GL003-28) stipulates that insurers are deemed to comply with the requirements of the liability adequacy test under MFRS 4 Insurance Contracts as long as the valuation methods used are in accordance with Appendix VI or Appendix VII of the RBC Framework for Insurers. As the Company complies with the valuation method stipulated in the RBC Framework, the Company is deemed to have complied with the liability adequacy test.

Claims liabilities

Claims liabilities represent the amount payable under a life insurance policy in respect of claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

AFS fair value reserves

Where unrealised gains or losses arise on AFS financial assets of the life participating fund, the adjustment to the insurance contract liabilities is equal to the effect that the realisation of these gains or losses at the end of the reporting period would have on these liabilities that is recognised directly in the other comprehensive income.

Asset revaluation reserves

Asset revaluation reserves represent unrealised gains arising from the revaluation of self-occupied properties of the Life fund. The reserves arising in DPF and non-DPF is reported as a separate component of insurance contract liabilities and equity respectively until the properties are derecognised or the properties are determined to be impaired.

The surplus arising from the revaluation of the DPF's assets may be distributed by way of bonuses to life policyholders, subject to the limit that the amount distributed should not be more than 30% of the addition to revaluation reserves or 10% of the market value of the revalued property, whichever is lower (where applicable).

Net asset value attributable to unit holders

The unit liabilities of investment-linked policy are equal to the net asset value of the investment-linked funds.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Life insurance underwriting results

Distribution of life fund surplus to the shareholders

The surplus distributable from the life insurance fund to the shareholders is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders, made in accordance with the provisions of the Financial Services Act, 2013 and related regulations by the Company's Appointed Actuary.

Gross premiums

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

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

Premium income of the Investment-linked funds is in respect of the net creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on a receipt basis.

Reinsurance premium

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

Commission and agency expenses

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

Benefits, claims and expenses

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

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Life insurance underwriting results (continued)

Benefits, claims and expenses (continued)

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

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

2.18 Other revenue recognition

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

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

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

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

Profits or losses arising on disposal of investments are credited or charged to the statement of income.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.19 Taxation**

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or when the deferred tax liability is settled.

2.20 Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholder and upon receipt of approval from BNM.

2.21 Financial instruments**Classification, recognition and measurement of financial assets**

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

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Financial instruments (continued)

Classification, recognition and measurement of financial assets (continued)

(i) FVTPL

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

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

These investments are initially recorded at fair value and transaction costs are expensed in statement of income. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in statement of income.

(ii) HTM

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

(iii) LAR

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Financial instruments (continued)

(iv) AFS

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

Fair value gains and losses of these investments are reported as a separate component of equity or insurance contract liabilities until the investments are derecognised or the investments are determined to be impaired.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity or insurance contract liabilities is transferred to statement of income.

2.22 Fair value of financial instruments

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

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

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Fair value of financial instruments (continued)

The fair value of debenture securities (Malaysia Government Securities, debt securities) are measured based on the bid price obtained from Bond Pricing Agency Malaysia.

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

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

All financial assets, except for FVTPL, are subject to review for impairment (see Note 2.24 to the financial statements).

2.23 Derecognition of financial assets

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

2.24 Impairment of assets

Financial assets

The Company assess at each reporting date whether a financial asset or group financial assets is impaired. A financial asset or group financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred has an impact on the estimated future cash flows that can be reliably estimated.

- **Financial assets carried at amortised costs**

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Impairment of assets (continued)

- AFS financial assets

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

- Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial assets.

Non-financial assets

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Impairment of assets (continued)

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

2.25 Fair value measurement

The Company categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Company's valuation techniques for determining the fair value of the financial instruments. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

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

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

Level 3 – Fair value measurements using significant non market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk. Unobservable inputs are inputs not supported by market data, but which are set on the basis that they represent what is reasonable given the prevailing market conditions.

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions of the Company are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the statement of financial position date.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the statement of income.

2.27 Critical accounting estimates and judgements

Estimates and judgements are continuously evaluated by the Directors and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

A Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting will by definition rarely equal the related actual results.

To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Valuation of life insurance contract liabilities

The valuation of the ultimate liability arising from policy benefits made under life insurance contracts is the Company's most critical accounting estimate.

The main assumptions used relate to mortality, morbidity, expenses, persistency and discount rates. The Company bases mortality and morbidity on established industry and Malaysian tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, targets markets and own claims severity and frequency experiences.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Critical accounting estimates and judgements (continued)

A Critical accounting estimates and assumptions (continued)

Valuation of life insurance contract liabilities (continued)

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market return as well as expectation about future economic and financial developments.

Assumption on future expenses are based on the experience of the Company and long-term expected expenses levels. An inflation rate of 2.5% per annum is assumed over time. The Company conducts an expenses study annually. The latest study suggests that the Company is currently in an expense overrun position. Allowance is also made for payment of commission to distributors. Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

Discount rates for non-participating policies, guaranteed benefits of participating policies and the non-unit liability of investment-linked policies are based on the yields available on Malaysian Government Securities ("MGS") of the term up to 15 years. In the case of total benefits liabilities of participating policies, the discount rate is based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund.

Any movement in the above key assumptions will have an effect in determining the insurance business liabilities. It should be noted that movements in these assumptions are non-linear and would vary according to the current economic assumptions.

Refer to Note 31(e)(vi) to the financial statements for the sensitivity analysis of the above mentioned key assumptions.

B Critical judgements in applying the entity's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Company. However, the Directors are of the opinion that there are currently no accounting policies, which require significant judgment to be exercised.

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3 PROPERTIES AND EQUIPMENT

	Note	Freehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office equipment and computers RM'000	Furniture fittings and renovation RM'000	Total RM'000
<u>Cost/valuation</u>							
At 1 January 2017		11,000	10,900	270	18,670	10,143	50,983
Additions				429	1,923	40	2,392
Disposals		(11,000)	(4,400)	-	(578)	(213)	(16,191)
Revaluation loss recorded in other comprehensive income	13	-	(700)	-	-	-	(700)
At 31 December 2017		-	5,800	699	20,015	9,970	36,484
<u>Accumulated depreciation</u>							
At 1 January 2017		-	-	152	15,484	7,874	23,510
Disposals		-	-	-	(550)	(220)	(770)
Reversal on accumulated depreciation on property		-	(92)	-	-	-	(92)
Depreciation charge for the financial year	24	-	92	(60)	1,840	1,543	3,415
At 31 December 2017		-	-	92	16,774	9,197	26,063
<u>Net book value</u>							
At 31 December 2017		-	5,800	607	3,241	773	10,421

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3 PROPERTIES AND EQUIPMENT (CONTINUED)

	<u>Note</u>	<u>Freehold land</u> RM'000	<u>Buildings</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment and computers</u> RM'000	<u>Furniture fittings and renovation</u> RM'000	<u>Total</u> RM'000
<u>Cost/valuation</u>							
At 1 January 2016		9,700	10,900	549	16,741	9,986	47,876
Additions		-	-	-	2,145	625	2,770
Disposals		-	-	(279)	(226)	(443)	(948)
Transfer from intangible assets	5	-	-	-	11	-	11
Written-off to management expenses	24	-	-	-	(1)	(25)	(26)
Revaluation surplus in insurance contract liabilities	13	1,024	22	-	-	-	1,046
Revaluation surplus recorded in other comprehensive income		276	(22)	-	-	-	254
At 31 December 2016		<u>11,000</u>	<u>10,900</u>	<u>270</u>	<u>18,670</u>	<u>10,143</u>	<u>50,983</u>
<u>Accumulated depreciation</u>							
At 1 January 2016		-	-	216	13,582	6,979	20,777
Disposals		-	-	(114)	(189)	(359)	(662)
Reversal on accumulated depreciation on property		-	(193)	-	-	-	(193)
Depreciation charge for the financial year	24	-	193	50	2,091	1,254	3,588
At 31 December 2016		<u>-</u>	<u>-</u>	<u>152</u>	<u>15,484</u>	<u>7,874</u>	<u>23,510</u>
<u>Net book value</u>							
At 31 December 2016		<u>11,000</u>	<u>10,900</u>	<u>118</u>	<u>3,186</u>	<u>2,269</u>	<u>27,473</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3 PROPERTIES AND EQUIPMENT (CONTINUED)

Had the freehold building and long term leasehold buildings been carried at historical cost less accumulated depreciation, the carrying amounts that would have been included in the financial statements at the end of the financial year are as follows:

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
Freehold building and long term leasehold buildings	<u>4,600</u>	<u>5,530</u>

The long term leasehold buildings have unexpired lease periods ranging from 61 years to 76 years (2016: 62 years to 77 years).

Fair value information

Fair value of freehold land and long term leasehold buildings are categorised as Level 2 as follows:

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
Land	-	11,000
Buildings	<u>5,800</u>	<u>10,900</u>
Total land and buildings	<u>5,800</u>	<u>21,900</u>

The fair value of the long term leasehold building was measured using a valuation technique based on assumption supported by prices from observable current market transactions as well as the discounted cash flows (at the discount rates ranging from 5.75% to 6.00%) (2016: 6.00% to 6.50%) of the current rental income based on usual tenancy terms in open market values.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

4 INVESTMENT PROPERTY

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
At 1 January		6,200	6,000
Fair value changes	21	<u>(700)</u>	<u>200</u>
At 31 December		<u>5,500</u>	<u>6,200</u>

The following investment property is held under lease terms:

Leasehold land and building	<u>5,500</u>	<u>6,200</u>
-----------------------------	--------------	--------------

Investment property is stated at fair value, which had been determined based on valuations performed by an external independent professional valuer on 31 December 2017. Valuation is performed on an annual basis and fair value changes are recorded in the statement of income.

Fair value information

Fair value of investment property is categorised as Level 2 as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Investment property	<u>5,500</u>	<u>6,200</u>

The following are recognised in the statement of income in respect of investment property:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Rental income	435	444
Direct operating expenses	<u>(150)</u>	<u>(118)</u>

The fair value of the long term leasehold building was measured using a valuation technique based on assumption supported by prices from observable current market transactions as well as the discounted cash flows (at the discount rates ranging from 5.75% to 6.00%) (2016: 6.00% to 6.25%) of the current rental income based on usual tenancy terms in open market values.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5 INTANGIBLE ASSETS

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Software costs</u>			
<u>Cost</u>			
At 1 January		21,095	15,202
Additions		3,030	5,904
Disposal		(5)	-
Transfer to properties and equipment	3	-	(11)
At 31 December		<u>24,120</u>	<u>21,095</u>
<u>Accumulated amortisation</u>			
At 1 January		11,469	8,604
Charge for the financial year	24	3,400	2,865
Disposal		(4)	-
At 31 December		<u>14,865</u>	<u>11,469</u>
<u>Net book value</u>			
At 31 December		<u>9,255</u>	<u>9,626</u>

6 PREPAID LEASE PROPERTY

		<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Cost</u>			
At 1 January		<u>265</u>	<u>265</u>
<u>Accumulated amortisation</u>			
At 1 January		31	28
Charge for the financial year	24	3	3
At 31 December		<u>34</u>	<u>31</u>
<u>Net book value</u>			
At 31 December		<u>231</u>	<u>234</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 INVESTMENTS

	<u>2017</u> RM'000	<u>2016</u> RM'000
Malaysian Government Securities	46,477	51,358
Malaysian government guaranteed bonds	600,158	524,886
Debt securities	943,147	897,576
Equity securities	362,388	334,580
Unit trust and property trust funds	100,262	45,111
Loans	59,846	55,282
Fixed and call deposits	124,794	170,688
	<u>2,237,072</u>	<u>2,079,481</u>
Held-to-maturity financial assets ("HTM")	296,435	307,493
Loans and receivables ("LAR")	184,640	225,970
Available-for-sale financial assets ("AFS")	1,277,285	1,150,693
Fair value through profit and loss financial assets ("FVTPL")	478,712	395,325
	<u>2,237,072</u>	<u>2,079,481</u>
The following investments mature after 12 months:		
HTM	296,336	302,306
LAR	59,846	55,282
AFS	1,198,517	1,077,176
	<u>1,554,699</u>	<u>1,434,764</u>
(a) HTM		
	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Amortised cost</u>		
Unquoted in Malaysia		
Malaysian government guaranteed bonds	10,016	15,018
Debt securities	282,503	288,362
Accrued interest	3,916	4,113
	<u>296,435</u>	<u>307,493</u>
<u>Fair value</u>		
Unquoted in Malaysia		
Malaysian government guaranteed bonds	9,707	14,586
Debt securities	287,495	291,144
Accrued interest	3,916	4,113
	<u>301,118</u>	<u>309,843</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(b) LAR

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Amortised cost</u>		
Fixed and call deposits	124,596	170,473
Policy loans	46,652	43,155
Accrued interest	13,392	12,342
	<u>184,640</u>	<u>225,970</u>
<u>Fair value</u>		
Fixed and call deposits	124,596	170,473
Policy loans	46,652	43,155
Accrued interest	13,392	12,342
	<u>184,640</u>	<u>225,970</u>

Fixed and call deposits of the Company have an average maturity of 16 days (2016: 10 days). The interest rate per annum of fixed deposits, that was effective as at the end of the reporting year was 3.05% per annum (2016: 3.17% per annum).

(c) AFS

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Fair value</u>		
Unquoted in Malaysia		
Equity securities	2,401	2,401
Debt securities	631,523	580,954
Malaysian Government Securities	45,862	50,679
Malaysian government guaranteed bonds	583,638	504,029
Accrued interest	13,861	12,630
	<u>1,277,285</u>	<u>1,150,693</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(d) FVTPL

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Fair value</u>		
Quoted in Malaysia		
Held-for-Trading		
Equity securities	233,138	234,814
Unit trust and property trust funds	63,576	7,815
By designation		
Equity securities	118,766	91,644
Unit trust and property trust funds	231	86
Quoted outside Malaysia		
By designation		
Equity securities	8,082	5,721
Unquoted in Malaysia		
By designation		
Debt securities	18,240	17,811
Accrued interest	224	224
Unquoted outside Malaysia		
By designation		
Unit trust and property trust funds	36,455	37,210
	<u>478,712</u>	<u>395,325</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(e) Carrying value of financial investments

	<u>HTM</u> RM'000	<u>AFS</u> RM'000	<u>FVTPL</u> RM'000	<u>Total</u> RM'000
At 1 January 2017	307,493	1,150,693	395,325	1,853,511
Purchases	-	194,831	385,668	580,499
Maturities/disposals/ proceeds	(10,505)	(70,000)	(358,950)	(439,455)
Realised gains/(losses)	341	(1)	25,899	26,239
Fair value gains/(losses) recorded in:				
Statement of income	-	-	30,593	30,593
Other comprehensive income	-	(46)	-	(46)
(Amortisation of premium)/ accretion of discount	(645)	578	-	(67)
Movement of investment income accrued	(249)	1,230	177	1,158
At 31 December 2017	<u>296,435</u>	<u>1,277,285</u>	<u>478,712</u>	<u>2,052,432</u>
At 1 January 2016	332,850	999,722	481,427	1,813,999
Purchases	-	245,708	324,005	569,713
Maturities/disposals/ Proceeds	(15,125)	(98,624)	(415,058)	(528,807)
Realised gains/(losses)	6	(7)	13,338	13,337
Fair value gains/(losses) recorded in:				
Statement of income	-	-	(8,426)	(8,426)
Other comprehensive income	-	945	-	945
Movement in impairment allowance	(9,626)	-	-	(9,626)
(Amortisation of premium)/ accretion of discount	(621)	625	-	4
Movement of investment income accrued	9	2,324	39	2,372
At 31 December 2016	<u>307,493</u>	<u>1,150,693</u>	<u>395,325</u>	<u>1,853,511</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(f) Estimation of fair value

Fair value hierarchy disclosure

The following table presents the Company's assets that are measured at fair value.

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>31 December 2017</u>				
Financial assets at FVTPL				
Quoted in Malaysia				
Equity securities	351,904	-	-	351,904
Unit trust and property trust funds	63,807	-	-	63,807
Quoted outside Malaysia				
Equity securities	8,082	-	-	8,082
Unquoted in Malaysia				
Debt securities	-	18,464	-	18,464
Unquoted outside Malaysia				
Unit trust and property trust funds	-	36,455	-	36,455
AFS				
Unquoted in Malaysia				
Equity securities	-	-	2,401	2,401
Debt securities	-	713,694	8,047	721,741
Malaysia Government Securities	-	64,592	-	64,592
Malaysia government guaranteed bonds	-	474,690	-	474,690
Accrued interest	-	13,861	-	13,861
Total assets	423,793	1,321,756	10,448	1,755,997
<u>31 December 2016</u>				
Financial assets at FVTPL				
Quoted in Malaysia				
Equity securities	326,458	-	-	326,458
Unit trust and property trust funds	7,901	-	-	7,901
Quoted outside Malaysia				
Equity securities	5,721	-	-	5,721
Unquoted in Malaysia				
Debt securities	-	18,035	-	18,035
Unquoted outside Malaysia				
Unit trust and property trust funds	-	37,210	-	37,210
AFS				
Unquoted in Malaysia				
Equity securities	-	-	2,401	2,401
Debt securities	-	573,726	7,229	580,955
Malaysia Government Securities	-	50,679	-	50,679
Malaysia government guaranteed bonds	-	504,029	-	504,029
Accrued interest	-	12,629	-	12,629
Total assets	340,080	1,196,308	9,630	1,546,018

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(f) Estimation of fair value (continued)

Fair value hierarchy disclosure (continued)

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Level 3</u>		
At 1 January	9,630	87,315
Total gains for the year recognised in statement of income, presented in insurance contract liabilities	818	3,271
Fair value gains	-	879
Sales of financial assets	-	(68)
Maturity of financial assets	-	(81,767)
At 31 December	<u>10,448</u>	<u>9,630</u>

As observable prices are not available for these securities, the Directors have determined the fair values based on discounted cash flows and the binding bid price as quoted by the issuer. The valuations are not sensitive to a change in unobservable inputs.

Level 3 valuations are reviewed on an annual basis by the Company's management. The management considers the appropriateness of the valuation model inputs, as well as the valuation result using the valuation method and techniques generally recognised as standard within industry.

Impaired financial assets

At 31 December 2017, impaired financial assets comprised of HTM financial assets of RM36,440,293 (2016: RM 36,630,000). A reconciliation of the allowance for impairment losses for HTM financial assets is as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
At 1 January	9,626	-
Charge for the financial year	-	9,626
At 31 December	<u>9,626</u>	<u>9,626</u>

8 REINSURANCE ASSETS

	<u>2017</u> RM'000	<u>2016</u> RM'000
Reinsurance of insurance contracts (Note 13)		
Claims liabilities	7,304	8,963
Insurance contract liabilities	8,741	10,503
	<u>16,045</u>	<u>19,466</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

9 **INSURANCE RECEIVABLES**

	<u>2017</u> RM'000	<u>2016</u> RM'000
Outstanding premiums including agents, brokers and co-insurers balances	5,393	9,098
Amounts due from reinsurers	2,583	6,849
Allowance for impairment	(6)	(2)
	<u>7,970</u>	<u>15,945</u>
<u>Impairment movement</u>		
At 1 January	(2)	(24)
(Charge)/Recovery for the financial year	(4)	22
At 31 December	<u>(6)</u>	<u>(2)</u>

The Company does not off-set its insurance receivables against insurance payables. The Company does not have any financial instruments subject to an enforceable master netting arrangement or financial collateral (pledged or received) as at 31 December 2017 (2016: RM nil).

10 **OTHER RECEIVABLES**

	<u>2017</u> RM'000	<u>2016</u> RM'000
Income due and accrued	242	159
Receivable from fund managers and brokers	11,593	24,077
Other receivables, deposits and prepayments	3,516	3,058
	<u>15,351</u>	<u>27,294</u>
Receivables after 12 months:	<u>631</u>	<u>766</u>

The Company does not off-set its other receivables against other payables. The Company does not have any financial instruments subject to an enforceable master netting arrangement or financial collateral (pledged or received) as at 31 December 2017 (2016: RM nil).

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

11 SHARE CAPITAL

	2017		2016	
	Number of shares 000	Amount RM'000	Number of shares 000	Amount RM'000
<u>Issued and fully paid:</u>				
Ordinary shares of RM1.00 each				
At beginning and end of financial year	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>

12 RESERVES

(a) Retained earnings

The non-distributable retained earnings represent the unallocated surplus from the Non-Par Fund. In accordance with Section 83 of the FSA, the unallocated surplus is only available for distribution to the shareholders upon approval/recommendation by the Appointed Actuary.

Pursuant to the single tier system, any dividends distributed by the Company will be exempted from tax in the hand of shareholders. The Company shall not be entitled to deduct on dividend paid, credited or distributed to shareholders.

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend with effect from the financial year beginning 1 December 2013. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

(b) Other reserves

Other reserves consist of AFS reserves and asset revaluation reserve.

The AFS reserves of the Company represent the fair value gains or losses of the AFS financial assets, net of deferred tax, of the Life Non-Participating and Shareholders' funds.

The asset revaluation reserve represents the revaluation surplus of self-occupied properties.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES

	2017			2016		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Benefits and claims liabilities	198,172	(7,304)	190,868	170,063	(8,963)	161,100
Actuarial liabilities	1,403,993	(8,741)	1,395,252	1,265,862	(10,503)	1,255,359
Unallocated surplus	12,963	-	12,963	5,637	-	5,637
Available-for-sale fair value reserves	(1,038)	-	(1,038)	(687)	-	(687)
Asset revaluation reserves	3,752	-	3,752	11,663	-	11,663
Net asset value attributable to unit holders	<u>190,921</u>	<u>-</u>	<u>190,921</u>	<u>176,759</u>	<u>-</u>	<u>176,759</u>
	<u>1,808,763</u>	<u>(16,045)</u>	<u>1,792,718</u>	<u>1,629,297</u>	<u>(19,466)</u>	<u>1,609,831</u>

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross			Reinsurance			Net
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January 2017	963,395	665,902	1,629,297	(1,837)	(17,629)	(19,466)	1,609,831
Change in life insurance fund contract liabilities							
Due to assumptions change							
Expenses	19,608	48,578	68,186	-	-	-	68,186
Mortality/morbidity	91	(14,724)	(14,633)	-	-	-	(14,633)
Lapse/withdrawal	4,238	5,532	9,770	-	-	-	9,770
Interest and bonus rate	(5,454)	15,342	9,888	-	-	-	9,888
Others	(2,305)	(9,012)	(11,317)	-	-	-	(11,317)
Projected cash flow for inforce policies							
Premium	100,672	95,105	195,777	-	-	-	195,777
Investment return	41,116	12,385	53,501	-	-	-	53,501
Benefits	(84,079)	(75,726)	(159,805)	-	-	-	(159,805)
Expenses/commission	(13,228)	(31,154)	(44,382)	-	-	-	(44,382)
Variance on inforce policies	13,579	2,688	16,267	-	-	-	16,267
New business reserves	640	6,243	6,883	-	-	-	6,883
Others	2,791	5,205	7,996	(215)	1,976	1,761	9,757
Benefits and claims experience variation	25,248	2,861	28,109	26	1,634	1,660	29,769
Net asset value attributable to unit holders	-	14,162	14,162	-	-	-	14,162
Available-for-sale fair value reserves	(382)	-	(382)	-	-	-	(382)
Assets revaluation reserves	(8,345)	-	(8,345)	-	-	-	(8,345)
Unallocated surplus	7,326	-	7,326	-	-	-	7,326
Deferred tax effects:							
Available-for-sale fair value reserves	31	-	31	-	-	-	31
Assets revaluation reserves	434	-	434	-	-	-	434
At 31 December 2017	<u>1,065,376</u>	<u>743,387</u>	<u>1,808,763</u>	<u>(2,026)</u>	<u>(14,019)</u>	<u>(16,045)</u>	<u>1,792,718</u>

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross			Reinsurance			Net
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	901,523	758,451	1,659,974	(84)	(4,687)	(4,771)	1,655,203
Change in life insurance fund contract liabilities							
Due to assumptions change							
Expenses	-	-	-	-	-	-	-
Mortality/morbidity	(5,945)	(14,666)	(20,611)	-	-	-	(20,611)
Lapse/withdrawal	(2,105)	(5,182)	(7,287)	-	-	-	(7,287)
Interest and bonus rate	14,056	(2,134)	11,922	-	-	-	11,922
Others	(8,981)	(6,297)	(15,278)	-	-	-	(15,278)
Projected cash flow for inforce policies							
Premium	107,349	112,847	220,196	-	-	-	220,196
Investment return	38,856	10,864	49,720	-	-	-	49,720
Benefits	(92,555)	(95,504)	(188,059)	-	-	-	(188,059)
Expenses/commission	(14,611)	(39,821)	(54,432)	-	-	-	(54,432)
Variance on inforce policies	14,286	9,262	23,548	-	-	-	23,548
New business reserves	97	4,065	4,162	-	-	-	4,162
Others	(492)	21,620	21,128	-	(8,033)	(8,033)	13,095
Benefits and claims experience variation	20,507	(2,790)	17,717	(1,753)	(4,909)	(6,662)	11,055
Net asset value attributable to unit holders	-	(84,813)	(84,813)	-	-	-	(84,813)
Available-for-sale fair value reserves	403	-	403	-	-	-	403
Assets revaluation reserves	1,046	-	1,046	-	-	-	1,046
Unallocated surplus	(10,007)	-	(10,007)	-	-	-	(10,007)
Deferred tax effects:							
Available-for-sale fair value reserves	(32)	-	(32)	-	-	-	(32)
At 31 December 2016	<u>963,395</u>	<u>665,902</u>	<u>1,629,297</u>	<u>(1,837)</u>	<u>(17,629)</u>	<u>(19,466)</u>	<u>1,609,831</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

14 DEFERRED TAX LIABILITIES

	<u>2017</u> RM'000	<u>2016</u> RM'000
At 1 January	48,123	47,470
Recognised in:		
Statement of income (Note 25)	(11,522)	431
Other comprehensive income		
Deferred tax on AFS	58	171
Deferred tax on assets revaluation reserves	(434)	51
At 31 December	<u>36,225</u>	<u>48,123</u>

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	(2,621)	(3,605)
Deferred tax liabilities	<u>38,846</u>	<u>51,728</u>
	<u>36,225</u>	<u>48,123</u>
Current	455	(2,201)
Non current	<u>35,770</u>	<u>50,324</u>
	<u>36,225</u>	<u>48,123</u>

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

14 DEFERRED TAX LIABILITIES (CONTINUED)

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

	Fair value of investment assets <u>RM'000</u>	Loan and receivable <u>RM'000</u>	Accelerated capital allowance on properties and equipment <u>RM'000</u>	Accretion of discounts on investment <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
<u>Deferred tax assets</u>					
At 1 January 2016	(2,672)	(56)	-	(197)	(2,925)
Recognised in:					
Statement of income	(613)	(20)	-	(65)	(698)
Other comprehensive income	18	-	-	-	18
At 31 December 2016	<u>(3,267)</u>	<u>(76)</u>	<u>-</u>	<u>(262)</u>	<u>(3,605)</u>
Recognised in:					
Statement of income	1,137	-	(28)	(104)	1,005
Other comprehensive income	(21)	-	-	-	(21)
At 31 December 2017	<u>(2,151)</u>	<u>(76)</u>	<u>(28)</u>	<u>(366)</u>	<u>(2,621)</u>

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

14 DEFERRED TAX LIABILITIES (CONTINUED)

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

	Fair value of investment assets RM'000	Fair value of investment property RM'000	Accelerated capital allowance on properties and equipment RM'000	Accretion of discounts on investment RM'000	Unallocated surplus RM'000	Total RM'000
<u>Deferred tax liabilities</u>						
At 1 January 2016	1,662	786	776	212	46,959	50,395
Recognised in:						
Statement of income	(705)	16	218	81	1,519	1,129
Other comprehensive income	153	51	-	-	-	204
At 31 December 2016	1,110	853	994	293	48,478	51,728
Tax impact on reclassification of asset revaluation reserves to retained earnings	-	(434)	-	-	-	(434)
Recognised in:						
Statement of income	1,494	-	(209)	70	(13,883)	(12,528)
Other comprehensive income	80	-	-	-	-	80
At 31 December 2017	2,684	419	785	363	34,595	38,846

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

15 INSURANCE PAYABLES

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
Amount due to insureds	55,034	70,989
Amount owing to client and intermediaries	3,822	9,035
Amount owing to reinsurers and cedants	3,512	13,663
	<u>62,368</u>	<u>93,687</u>

The carrying amounts disclosed above approximate fair value at the statement of financial position date.

The Company does not off-set its insurance payables against insurance receivables. The Company does not have any financial instruments subject to an enforceable master netting arrangement or financial collateral (pledged or received) as at 31 December 2017 (2016: RM nil).

16 OTHER PAYABLES

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
Accrued expenses	9,754	9,865
Provision for bonus	10,242	6,611
Unclaimed monies	6,058	6,412
Payable to investment brokers	1,640	-
Agency related expenses accrued	1,895	1,525
Marketing related expenses accrued	3,962	11,398
Provision for policy settlement	787	1,399
Other payables and accruals	5,899	3,858
Director related expenses accrued	361	354
	<u>40,598</u>	<u>41,422</u>

The carrying amounts disclosed above approximate fair value at the statement of financial position date.

The Company does not off-set its other payables against other receivables. The Company does not have any financial instruments subject to an enforceable master netting arrangement or financial collateral (pledged or received) as at 31 December 2017 (2016: RM nil).

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

17 OPERATING REVENUE

	<u>2017</u> RM'000	<u>2016</u> RM'000
Gross premiums (Note 18)	295,764	306,292
Investment income (Note 19)	<u>95,751</u>	<u>90,327</u>
	<u><u>391,515</u></u>	<u><u>396,619</u></u>

18 NET PREMIUMS

	<u>2017</u> RM'000	<u>2016</u> RM'000
(a) Gross premiums:		
Insurance contracts	295,764	306,292
(b) Premiums ceded to reinsurers:		
Insurance contracts	(10,111)	(14,665)
Net premiums	<u><u>285,653</u></u>	<u><u>291,627</u></u>

19 INVESTMENT INCOME

	<u>2017</u> RM'000	<u>2016</u> RM'000
Rental income from investment properties	285	326
FVTPL financial assets - held for trading purposes:		
Interest	1,187	1,074
Dividend/distribution income		
Equity securities quoted in Malaysia	10,535	9,459
Equity securities quoted outside Malaysia	178	212
Equity securities unquoted in Malaysia	206	389
HTM financial assets:		
Interest	18,408	17,849
Accretion of discounts net of amortisation of premiums	(645)	(621)
AFS financial assets:		
Interest	55,320	48,338
Accretion of discounts net of amortisation of premiums	578	625
LAR:		
Interest from loan	3,464	5,511
Interest from fixed and called deposits	<u>6,235</u>	<u>7,165</u>
	<u><u>95,751</u></u>	<u><u>90,327</u></u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

20 REALISED GAINS

	<u>2017</u> RM'000	<u>2016</u> RM'000
Properties and equipment	<u>2,041</u>	<u>(11)</u>
Financial assets at FVTPL - held for trading purposes:		
Equity securities and unit trusts quoted in Malaysia	26,441	14,439
Equity securities and unit trusts quoted outside Malaysia	(542)	(1,122)
HTM financial assets:		
Debt securities unquoted in Malaysia	341	27
AFS financial assets:		
Debt securities	(1)	(7)
	<u>26,239</u>	<u>13,337</u>
Total realised gains	<u><u>28,280</u></u>	<u><u>13,326</u></u>

21 FAIR VALUE GAINS/(LOSSES)

	<u>2017</u> RM'000	<u>2016</u> RM'000
Investment property (Note 4)	(700)	200
FVTPL investments – held for trading purposes	22,325	(4,211)
FVTPL investments – designated		
Quoted in Malaysia		
Equity securities	-	(10,378)
Unit trust and property trust funds	(86)	13
Quoted outside Malaysia		
Equity securities	940	(334)
Unquoted in Malaysia		
Debt securities	525	(71)
Unquoted outside Malaysia		
Unit trust and property trust funds	6,890	6,555
Impairment on HTM debt securities	-	(9,626)
	<u>29,894</u>	<u>(17,852)</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

22 OTHER OPERATING INCOME

	<u>2017</u> RM'000	<u>2016</u> RM'000
Policyholder administration and investment management services	(324)	10
Other income	2,315	2,079
	<u>1,991</u>	<u>2,089</u>

23 NET INSURANCE BENEFITS AND CLAIMS

	<u>2017</u> RM'000	<u>2016</u> RM'000
(a) Gross benefits and claims:		
Insurance contracts		
• Death	(25,609)	(22,028)
• Maturity	(34,332)	(120,013)
• Surrender	(62,049)	(66,855)
• Others	(80,409)	(74,225)
	<u>(202,399)</u>	<u>(283,121)</u>
(b) Claims ceded to reinsurers:		
Insurance contracts	<u>8,103</u>	<u>10,351</u>
(c) Gross change in contract liabilities:		
Insurance contracts	<u>(151,978)</u>	<u>50,003</u>
(d) Change in contract liabilities ceded to reinsurers:		
Insurance contracts	<u>(1,762)</u>	<u>8,033</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

24 MANAGEMENT EXPENSES

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
Employee benefits expense	24 (a)	60,099	51,115
Directors' remuneration:			
- current year	24 (d)	576	438
- prior year under provision		-	11
Auditors' remuneration:			
- statutory audit services		343	291
- prior year over provision		3	24
Depreciation of properties and equipment		3,323	3,588
Amortisation of intangible assets		3,400	2,865
Amortisation of prepaid lease property		3	3
Written-off properties and equipment		-	26
Training expenses		642	799
Printing and stationery		568	936
Postage, telephone and telefax		1,795	2,063
EDP expenses		5,101	4,446
Rental of office from third parties		1,260	1,627
Legal fees		-	(31)
Investment expenses		5,985	5,766
Administration and general expenses		45,893	53,818
		<u>128,991</u>	<u>127,785</u>
 (a) Employee benefits expense			
Wages, salaries and bonuses		48,073	40,285
Contributions to social security ("SOCSO")		295	251
Contributions to EPF		7,286	6,105
Share based payment		351	190
Other benefits		4,094	4,284
Total employee benefits expenses		<u>60,099</u>	<u>51,115</u>

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM 2,312,903 (2016: RM1,642,039) as disclosed in Note 24(b) to the financial statements.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

24 **MANAGEMENT EXPENSES (CONTINUED)**

(b) Chief Executive Officer remuneration

The details of remuneration, attributable to the Chief Executive Officer of the Company are as follow:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Salary	1,587	886
Bonus	249	503
Benefits-in-kind	31	25
Retirement benefit	446	228
	<u>2,313</u>	<u>1,642</u>

(c) Compensation of key management personnel

The compensation of the key management personnel excluding the Chief Executive Officer as disclosed in Note 24(b) to the financial statements is as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Short term employee benefits	4,754	3,265
Defined contribution plan	488	249
	<u>5,242</u>	<u>3,514</u>

(d) Directors' remuneration

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Director fees</u>		
Dato' Haji Kamil Khalid Ariff	130	116
Datuk Azizan Bin Haji Abd Rahman	-	53
Dato' Danapalan A/L T.P. Vinggrasalam	118	80
Ramesh Pillai	95	50
Oh Teik Tatt	103	-
	<u>446</u>	<u>299</u>
<u>Director allowances</u>		
Dato' Haji Kamil Khalid Ariff	38	63
Datuk Azizan Bin Haji Abd Rahman	-	25
Dato' Danapalan A/L T.P. Vinggrasalam	36	31
Ramesh Pillai	25	20
Oh Teik Tatt	31	-
	<u>130</u>	<u>139</u>
	<u>576</u>	<u>438</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

25 TAXATION

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
Tax expense – current financial year	8,476	7,554
Under/(Over) provision in prior financial years	355	(576)
Deferred tax (Note 14)	<u>(11,522)</u>	<u>431</u>
Tax (benefit)/expense	<u>(2,691)</u>	<u>7,409</u>

Domestic income tax for shareholders' fund is calculated at the Malaysian statutory rate of 24% (2016: 24%) of the estimated assessable profit for the financial year. The amount of tax charged on the life fund is based on the method prescribed under the Income Tax Act, 1967 for life insurance business. The statutory tax rate for the life insurance business is 8%.

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

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
(Loss)/profit before tax	(48,604)	16,831
Less: Tax expense on investment income attributable to policyholders and unit holders	<u>(5,858)</u>	<u>(2,438)</u>
(Loss)/profit before taxation attributable to shareholders	(54,462)	14,393
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	(13,071)	3,454
Income not subject to tax	72	(95)
Expense not deductible for tax purpose	433	499
Effect of difference in tax rate	3,662	1,689
Current year tax on investment income attributable to policyholders and unit holders	5,858	2,438
Under/(over) provision of tax expenses in prior financial years	<u>355</u>	<u>(576)</u>
Tax (benefit)/expense for the financial year	<u>(2,691)</u>	<u>7,409</u>

26 EARNINGS/LOSS PER SHARE

	<u>2017</u>	<u>2016</u>
(Loss)/profit for the financial year attributable to shareholders (RM'000)	<u>(45,913)</u>	<u>9,422</u>
Number of ordinary shares of RM1 each (000)	<u>125,000</u>	<u>125,000</u>
Basic (loss)/earnings per share (sen)	<u>(36.73)</u>	<u>7.54</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

27 CASH FLOWS

	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
(Loss)/profit for the financial year	(45,913)	9,422
Tax expense attributable to participating fund and unit holders	5,858	2,438
Tax expense attributable to shareholders	(8,549)	4,971
Investment income	(95,751)	(90,327)
Realised (gains)/losses recorded in statement of income:		
- Properties and equipment	(2,041)	11
- Investment assets	(26,239)	(13,337)
Fair value (gains)/losses recorded in statement of income:		
- Investment property	700	(200)
- Investment assets	(30,593)	18,052
Purchases of FVTPL financial assets	(385,668)	(324,005)
Maturity/proceeds from sale of FVTPL financial assets	358,950	415,058
Purchases of AFS financial assets	(194,785)	(245,708)
Maturity/proceeds from sale of AFS financial assets	70,000	98,624
Maturity of HTM financial assets	10,505	15,125
Decrease in LAR	41,330	73,377
Non-cash items:		
Depreciation of properties and equipment	3,415	3,588
Amortisation of intangible assets	3,400	2,865
Amortisation of prepaid lease property	3	3
Reversal of depreciation for buildings	(92)	-
Allowance/(write-back) for doubtful debts	4	(22)
Changes in working capital:		
Decrease/(increase) in reinsurance assets	3,421	(6,662)
Decrease/(increase) in insurance receivables	7,971	(4,208)
Decrease/(increase) in other receivables	11,943	(8,949)
Decrease/(increase) in tax recoverable	-	(2,517)
Increase/(decrease) insurance contract liabilities	180,083	(40,003)
(Decrease)/increase in insurance payables	(31,319)	6,977
(Decrease)/increase in other payables	(2,603)	12,347
Cash used in operating activities	<u>(125,970)</u>	<u>(73,080)</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

28 CAPITAL COMMITMENTS

As of 31 December 2017, capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Authorised and contracted but not provided for:		
Computer hardware and software	1,304	1,958
Properties and equipment	59	-
	<u>1,363</u>	<u>1,958</u>
Approved and not contracted for:		
Computer hardware and software	1,189	1,403
Properties and equipment	305	505
	<u>1,494</u>	<u>1,908</u>

29 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2017, as prescribed under the RBC Framework is provided below:-

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Eligible Tier 1 Capital</u>		
Share capital (paid up)	125,000	125,000
Valuation surplus, retained earnings and other capital available	422,542	468,011
	<u>547,542</u>	<u>593,011</u>
<u>Tier 2 Capital</u>		
Eligible Tier 2 Capital	2,664	13,428
Amount deducted from Capital	(24,131)	(34,678)
	<u>(21,467)</u>	<u>(21,250)</u>
Total Capital Available	<u>526,075</u>	<u>571,761</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30 RELATED PARTY DISCLOSURES

In the normal course of business, the Company undertakes various transactions with other companies deemed related by virtue of being subsidiaries and associated companies of PFI and of BSN. The transactions were entered into between the Company and related parties based on agreed terms and conditions.

(a) Related parties and relationship

The related parties of, and their relationship, with the Company are as follows:

<u>Related companies</u>	<u>Country of Incorporation</u>	<u>Relationship</u>
Prudential Financial, Inc. ("PFI")	United States of America	Ultimate holding company
The Prudential Insurance Company of America ("PICA")	United States of America	Penultimate holding company
PGIM (Singapore) Pte. Ltd. ("PGIM")	Singapore	Subsidiary of ultimate holding company
Bank Simpanan Nasional ("BSN")	Malaysia	Substantial shareholder
Gibraltar BSN Holdings Sdn Bhd ("GH")	Malaysia	Immediate holding company
<u>Affiliated company</u>		
Key management personnel	Malaysia	Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30 RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party balances

The significant related party balances as at end of the financial year are as follows:

	<u>Note</u>	<u>2017</u> RM'000	<u>2016</u> RM'000
Included in investment:	7		
Fixed and call deposits placed with			
• BSN		32,876	43,558
Interest income receivable from			
• BSN		53	62
Included in other receivables:	10		
Outstanding general and administrative expenses due from			
• PFI		761	-
Included in other payables:	16		
Outstanding general and administrative expenses due to			
• PFI		-	(348)
Bank balances included in cash and bank balances placed with			
• BSN		811	9,221

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

30 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Related party transactions

The significant related party transactions of the Company with related parties during the financial year are as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Commission expenses paid/payable to:		
• BSN	<u>(6,880)</u>	<u>(6,796)</u>
Interest income received/receivable from:		
• BSN	<u>1,583</u>	<u>1,927</u>
General and administrative expenses paid/payable to:		
• PFI	329	(1,583)
• PGIM	(548)	-
• BSN	<u>(7,636)</u>	<u>(5,256)</u>

31 RISK MANAGEMENT FRAMEWORK

(a) Overview of the Enterprise Risk Management Framework

The Enterprise Risk Management Framework (“the Framework”) sets out the governance structure in place to support implementation of a structured Risk Management process and to embed the risk management culture across the Company. It seeks to promote principles of sound corporate governance and effective management of risk to ensure that the risk-taking activities are aligned with the Company’s objective.

The Framework ensures that all key risks are identified, adequately assessed, treated, monitored, controlled and reported to the relevant stakeholders on a timely basis. Apart from safeguarding the Company financial strength and providing a strong platform for sustainable growth, it enables the Company to fulfill its obligations due to policyholders, shareholders, stakeholders, and at the same time, meeting the expectation of the Regulator.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(b) **Enterprise Risk Management Principles**

Risk is defined as the possibility that an event may occur and adversely impact the achievement of the Company's mission or business objectives. Proactive management of risk is an integral part of our business and the main objective of having the Framework in place is to ensure that all key risks are appropriately managed.

Broadly, the Framework classifies management of risks into six broad categories and these are:

1. Market risk
2. Credit risk
3. Liquidity risk
4. Insurance risk
5. Operational risk
6. Strategic risk

During the course of business, decisions taken and/or functions performed may expose the Company to one or more categories of risks. In order to strike a right balance of risks versus returns, these risks are managed to within acceptable limits, either by the Business and/or operational heads or established committees. This is possible owing to the proper Risk Governance structure being put in place within the Company. To this end, each of the committees have been set up and governed under clearly defined Terms of Reference, roles and responsibilities and level of delegated authorities, to ensure that the committees perform as intended.

(c) **Capital management**

The Company's capital management policy is to ensure that scenarios under which the possibility of future shortage of capital are accurately and timely identified and reported so that immediate remedial actions can be taken, utilise capital efficiently given limited resources for life insurers, achieve optimal balance in the management of risk, return, capital requirement as well as capital availability, and reduce the capital requirement by putting in place proper controls, risk management processes and procedures to eliminate unwanted surplus /losses.

Regulatory capital

The Company is required to comply with the RBC Framework which is the capital adequacy framework for all insurers licensed under the Financial Services Act, 2013. The Company is expected to comply by maintaining the Capital Adequacy Ratio ("CAR") at above the supervisory target level of 130% at all times. The CAR is calculated as follows:

$$\text{CAR} = \frac{\text{Total Capital Available ('TCA')}}{\text{Total Capital Required ('TCR')}} \times 100\%$$

The Company has met all the regulatory requirements and operates at capital level above Individual Target Capital Level throughout the financial year.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(d) **Governance framework**

The Company's Board of Directors retains the overall risk management responsibilities in accordance with BNM's Corporate Governance (BNM/RH/PD 029-9) and Guidelines on Risk Governance (BNM/RH/GL 013-5).

Whilst the Board still retains ultimate responsibilities for risk management and for determining the appropriate level of risk appetite, a Board Risk Management Committee consisting of non-executive directors has been established to assist the Board in overseeing the risk management strategies and provide an independent risk management reporting line for the Company.

An Executive Risk Management Committee is also established at Senior Management level and shall meet at least once every quarter, to review the Company's risk exposure and to raise and discuss matters regarding risk management.

An Operational Risk Committee (ORC) is established to provide governance and oversight of the operational risk management activities within the Company by ensuring the operational risk management activities are governed by the guiding principles and processes in the Company's Enterprise Risk Management Framework, with the sole emphasis of operational risks.

Whilst the Risk Management Department spearheads the development and implementation of the Framework and Risk Management Policy of the Company, the Senior Management remains accountable and responsible for the development of detailed policies, procedures and limits for managing risks inherent in the Company's activities based on the business and risk management strategies approved by the Board.

Consistent with the provisions set out in the guidelines, the Company's operational management or business lines, typically known as the first line of defense, are accountable for the day-to-day management of business activities and all types of risks associated with these activities within the established limits. The Risk Management and Compliance functions, typically known as the second line of defense, are accountable for ensuring adequate programs are in place in exercising its control and oversight responsibilities. The internal audit function, typically known as the third line of defense are accountable for providing the Board with an independent assurance that the risk management and oversight approach undertaken, system of internal controls, governance process of the Company are adequate and effective.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(e) Insurance risks of life insurance contracts

The Company is exposed to life insurance risks when it signs a contract with the insured party or policyholder for a premium amount and in return promises to compensate the policyholder if a specified uncertain future event or an insured event adversely affects the policyholder. Life insurance risks arise when the prices charged for life insurance contracts may be ultimately inadequate to support the future contractual obligations due to adverse deviation of the assumptions used in pricing the insurance contracts from the actual experience. Assumptions used in product pricing include items such as policy lapses, policy claims such as mortality and morbidity, expenses as well as investment return and discount rate.

Experience studies are carried out annually to ensure that pricing assumptions are adequate, appropriate and consistent with the actual experience for insurance product pricing purposes.

The Company has implemented underwriting and claims management guidelines and procedures to manage its life insurance risks. Whilst proper underwriting process is put in place to control the risk of anti-selection, appropriate claims management systems also help to identify fraudulent claims.

The mortality and morbidity risks are also managed through reinsurance programme. The bulk of the Company's reinsurance is in the form of automatic treaties. These treaties are of risk premium type and cover both individual business and group business. In addition, there is another layer of reinsurance that is in the form of a catastrophe treaty. Both of these types of reinsurance serve to protect the Company's solvency, especially when there is an accumulation of risk, for example a natural disaster.

A substantial portion of the Company's life insurance funds is participating in nature. In the event of volatile investment climate and/or unusual claims experience, the Company has the option of revising the bonus rates and dividends payable to the policyholders.

For non-participating funds, the risk is that policy benefits are guaranteed to the policyholders and these obligations must be fulfilled in spite of the Company's poor investment performance or unfavorable claims experience. To mitigate this risk, investment mandate is put in place to ensure that appropriate investment strategy that focuses on Low Risk Assets ("LRA") and Private Debt Securities ("PDS") assets with minimum equity exposure is adopted by the fund managers.

For investment-linked funds, the risk exposure for the Company is limited only to the underwriting aspect as all investment risks are borne by the policyholders and proper expense management is in place to minimise actual costs incurred.

The BNM's Policy Document of Stress Testing provides standards and guidance for the insurance industry in conducting stress testing to support a licensed person's risk and capital management. The purpose of Stress Testing is to test the solvency of life insurance funds under various scenarios according to the prescribed statutory valuation basis, simulating drastic changes in major parameters like interest rates, investment return, inflation rate, investment asset value, new business volume, mortality/morbidity patterns as well as expense patterns. In addition, stress testing also provides an early warning signal for the Company to take necessary measures to protect its financial position.

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Insurance risks of life insurance contracts (continued)

The table below shows the concentration actuarial liabilities by type of contract.

	Gross			Reinsurance			Net
	With	Without	Total	With	Without	Total	
	DPF	DPF		DPF	DPF		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2017</u>							
Whole Life	249,073	67,689	316,762	-	-	-	316,762
Endowment	619,197	192,892	812,089	-	-	-	812,089
Term - Mortgage	-	193,998	193,998	-	-	-	193,998
Term - Others	-	28,284	28,284	-	-	-	28,284
Riders	(1,203)	3,784	2,581	-	-	-	2,581
Other Provision	8,948	41,331	50,279	(215)	(8,526)	(8,741)	41,538
Total insurance contract liabilities	<u>876,015</u>	<u>527,978</u>	<u>1,403,993</u>	<u>(215)</u>	<u>(8,526)</u>	<u>(8,741)</u>	<u>1,395,252</u>
<u>31 December 2016</u>							
Whole Life	215,241	44,414	259,655	-	-	-	259,655
Endowment	583,481	174,200	757,681	-	-	-	757,681
Term - Mortgage	832	241,096	241,928	-	(10,503)	(10,503)	231,425
Term - Others	-	14,210	14,210	-	-	-	14,210
Riders	(1,207)	(6,405)	(7,612)	-	-	-	(7,612)
Total insurance contract liabilities	<u>798,347</u>	<u>467,515</u>	<u>1,265,862</u>	<u>-</u>	<u>(10,503)</u>	<u>(10,503)</u>	<u>1,255,359</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(e) Insurance risks of life insurance contracts (continued)

As all of the business is derived from Malaysia, the entire life insurance contract liabilities are in Malaysia.

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Valuation assumptions used are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Valuation assumptions and prudent estimates are determined at the date of valuation. Valuation 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 below:

(i) Mortality rates

Best estimate assumptions are based on the Company's recent experience studies.

(ii) Expenses

Best estimate assumptions are based on the experience of the Company and long-term expected expenses levels. An inflation rate of 2.5% per annum is assumed over time. The Company conducts an expense study annually. The Company is currently in an expense overrun position estimated on the basis of the expected cost in restructuring the portfolio of business should the portfolio be held on a run-off basis. Allowance is also made for payment of commission to distributors.

(iii) Lapse and surrender rates

Best estimate assumptions are based on the experience studies. The Company conducts a persistency study annually, or on a more regular basis when appropriate. Statistical methods are used to determine appropriate lapse and surrender rates. Lapse and surrender rates vary by product type and policy duration.

(iv) Discount rate

Risk free discount rate is used in the valuation of actuarial liabilities for non-participating fund and the non-unit liabilities of investment-linked funds and the guaranteed benefit liabilities of participating funds.

These risk free rates from durations of 1 to 15 years are the MGS yields taken from Bond Pricing Agency Malaysia, which is a recognised bond pricing agency in Malaysia. Interpolation or extrapolation is used to determine yields for terms where MGS yields are not available. For cash flows with duration of 15 years or more, the 15-year MGS yield is used for discounting purposes.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(e) Insurance risks of life Insurance contracts (continued)

(v) Fund based yield

Fund based yield is used in the valuation of actuarial liabilities for participating fund to discount expected cashflows for future years. Expected cashflows include an allowance for non-guaranteed benefits. The selected yield reflects the expected return on participating fund, based on investment strategy employed, and can be differentiated between groups of products to reflect characteristics of the products, which may affect the investment strategy employed. The yield is reduced to allow for expected tax on investment income.

(vi) Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. No management actions (e.g. possible revision of bonus rates for participating fund products) have been assumed in the calculation of net and gross liabilities. 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. Sensitivity information will also vary according to the current economic assumptions.

	<u>Impact on change in assumptions</u>	<u>Impact on gross liabilities</u> RM'000	<u>Impact on net liabilities</u> RM'000
<u>31 December 2017</u>			
Mortality/morbidity	+25%	70,540	70,540
Expenses	+25%	52,063	52,063
Lapse and surrender rates	+25%	1,927	1,927
Discount rate	-1%	136,716	136,716
<u>31 December 2016</u>			
Mortality/morbidity	+25%	77,718	77,718
Expenses	+25%	38,650	38,650
Lapse and surrender rates	+25%	9,000	9,000
Discount rate	-1%	114,801	114,801

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(f) **Financial Risk**

(i) **Credit risk**

Credit risk is the potential financial loss resulting from counterparty's inability or unwillingness to fully meet its contractual financial obligations as and when they fall due. The counterparties may include debtors, borrowers, brokers, policyholders, reinsurers and guarantors.

The Company's primary exposure to credit risk is through its investments in fixed income securities, lending activities such as policy loans are secured against the surrender value of policies and carry no substantial credit risk and potential obligations of reinsurers arising out of reinsurance arrangements.

The Company's Investment Committee manages credit risk associated with investments in fixed income securities through the setting of investment policies as well as credit exposure limits approved by the Board and within the guidelines issued by BNM.

Credit evaluation of an issuer of credit facilities is undertaken by the Investment Department. The credit profile of an issuer is assessed by considering factors such as industry and business background, operating performance or viability of a project, business risk factors, financial ratio analysis, financial strength and flexibility, availability of cash flows and identified sources of repayment, management credibility and shareholders' profile as well as security enhancement.

In addition, a credit review of individual exposure is also conducted by the investment team at least once a year to review and monitor the creditworthiness of issuers or counterparties. Additional review will be carried out when there is a downgrade of credit rating, a change in the nature of an issuer's business or a corporate restructuring of an issuer.

Reinsurance programme is arranged with reinsurers that have a good credit rating in order to reduce credit risk arising from reinsurance arrangements.

Credit risk in respect of policyholder balances incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is either paid up or terminated.

Credit exposure

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

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(i) Credit risk (continued)

Credit exposure (continued)

	Life and Shareholders' Fund RM'000	Investment- linked Funds RM'000	Total RM'000
<u>31 December 2017</u>			
HTM financial assets:			
Malaysian government guaranteed bonds	10,016	-	10,016
Debt securities	282,503	-	282,503
Accrued interest	3,916	-	3,916
LAR:			
Loans	46,652	-	46,652
Fixed and call deposits	117,071	7,525	124,596
Accrued interest	13,392	-	13,392
AFS financial assets:			
Equity securities	2,401	-	2,401
Debt securities	631,523	-	631,523
Malaysian Government Securities	45,862	-	45,862
Malaysian government guaranteed bonds	583,638	-	583,638
Accrued interest	13,861	-	13,861
FVTPL financial assets:			
Equity securities	233,138	126,848	359,986
Debt securities	-	18,240	18,240
Unit trust and property trust funds	63,576	36,686	100,262
Accrued interest	-	224	224
Reinsurance assets	16,045	-	16,045
Insurance receivables	7,970	-	7,970
Other receivables	6,437	8,914	15,351
Cash and cash equivalents	6,148	31	6,179
	<u>2,084,149</u>	<u>198,468</u>	<u>2,282,617</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(i) Credit risk (continued)

Credit exposure (continued)

	Life and Shareholders' Fund RM'000	Investment- linked Funds RM'000	Total RM'000
<u>31 December 2016</u>			
HTM financial assets:			
Malaysian government guaranteed bonds	15,018	-	15,018
Debt securities	288,362	-	288,362
Accrued interest	4,113	-	4,113
LAR:			
Loans	43,155	-	43,155
Fixed and call deposits	161,980	8,493	170,473
Accrued interest	12,331	11	12,342
AFS financial assets:			
Equity securities	2,401	-	2,401
Debt securities	580,954	-	580,954
Malaysian Government Securities	50,679	-	50,679
Malaysian government guaranteed bonds	504,029	-	504,029
Accrued interest	12,630	-	12,630
FVTPL financial assets:			
Equity securities	234,814	97,365	332,179
Debt securities	-	17,811	17,811
Unit trust and property trust funds	7,815	37,296	45,111
Accrued interest	-	224	224
Reinsurance assets	19,466	-	19,466
Insurance receivables	15,945	-	15,945
Other receivables	7,070	20,224	27,294
Cash and cash equivalents	28,354	19	28,373
	<u>1,989,116</u>	<u>181,443</u>	<u>2,170,559</u>

Company No.

277714 A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(i) Credit risk (continued)

Credit exposure by credit rating

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

	Investment grade (A to AAA)	Non- investment Grade (BBB and below)	Not rated	Not subject to credit risk	Investment- linked	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2017</u>						
HTM financial assets						
Malaysian government guaranteed bonds	-	-	10,016	-	-	10,016
Debt securities	246,063	36,440	-	-	-	282,503
Accrued interest	3,706	44	166	-	-	3,916
LAR						
Loans	-	-	46,652	-	-	46,652
Fixed and call deposits	91,922	-	25,149	-	7,525	124,596
Accrued interest	198	-	13,194	-	-	13,392
AFS financial assets						
Equity securities	-	-	2,401	-	-	2,401
Debt securities	623,475	8,048	-	-	-	631,523
Malaysian Government Securities	-	-	45,862	-	-	45,862
Malaysian government guaranteed bonds	-	-	583,638	-	-	583,638
Accrued interest	6,742	-	7,119	-	-	13,861
FVTPL financial assets						
Equity securities	-	-	-	233,138	126,848	359,986
Debt securities	-	-	-	-	18,240	18,240
Unit trust and property trust funds	-	-	-	63,576	36,686	100,262
Accrued interest	-	-	-	-	224	224
Reinsurance assets	7,304	-	8,741	-	-	16,045
Insurance receivables	7,970	-	-	-	-	7,970
Other receivables	330	-	6,107	-	8,914	15,351
Cash and cash equivalents	5,297	-	851	-	31	6,179
	<u>993,007</u>	<u>44,532</u>	<u>749,896</u>	<u>296,714</u>	<u>198,468</u>	<u>2,282,617</u>

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(i) Credit risk (continued)

Credit exposure by credit rating (continued)

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

	Investment grade (A to AAA) RM'000	Non- investment Grade (BBB and below) RM'000	Not rated RM'000	Not subject to credit risk RM'000	Investment- linked RM'000	Total RM'000
31 December 2016						
HTM financial assets						
Malaysian government guaranteed bonds	-	-	15,018	-	-	15,018
Debt securities	246,425	36,630	5,307	-	-	288,362
Accrued interest	3,703	71	339	-	-	4,113
LAR						
Loans	-	-	43,155	-	-	43,155
Fixed and call deposits	93,257	-	68,723	-	8,493	170,473
Accrued interest	113	-	12,218	-	11	12,342
AFS financial assets						
Equity securities	-	-	2,401	-	-	2,401
Debt securities	573,725	7,229	-	-	-	580,954
Malaysian Government Securities	-	-	50,679	-	-	50,679
Malaysian government guaranteed bonds	-	-	504,029	-	-	504,029
Accrued interest	6,366	-	6,264	-	-	12,630
FVTPL financial assets						
Equity securities	-	-	-	234,814	97,365	332,179
Debt securities	-	-	-	-	17,811	17,811
Unit trust and property trust funds	-	-	-	7,815	37,296	45,111
Accrued interest	-	-	-	-	224	224
Reinsurance assets	8,963	-	10,503	-	-	19,466
Insurance receivables	6,903	-	9,042	-	-	15,945
Other receivables	(261)	-	7,331	-	20,224	27,294
Cash and cash equivalents	18,979	-	9,375	-	19	28,373
	<u>958,173</u>	<u>43,930</u>	<u>744,384</u>	<u>242,629</u>	<u>181,443</u>	<u>2,170,559</u>

All financial assets of the Company as at 31 December 2017 are neither past due nor impaired.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(i) Credit risk (continued)

Collateral

Credit risk is mitigated by entering into collateral agreements. For staff loans, the title of the properties is held as collateral.

(ii) Liquidity risk

Liquidity risk is the risk of exposure to losses in the event that insufficient liquid asset will be available from among the assets supporting the policy obligations to meet the cash flow requirements of the obligations to policyholders when they fall due. For example, lower than expected investment income to meet claims necessitate unexpected realisation of assets. Unexpected demands for liquidity may also be triggered by market conditions that encourage widespread exercise of embedded options, adverse change in the surrender rate as well as uncertainty in the level of new business growth.

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by the management to finance its operations and to mitigate the effects of fluctuations in cash requirements. Liquidity management requires the Company to maintain a liquid position at all times to meet unexpected claims payments when they fall due and simultaneously hold an asset mix that meets the Company's target return.

The Company manages its liquidity risk by maintaining an adequate level of cash and cash equivalents as well as calculating the asset and liability durations and monitoring the asset-liability gap on a monthly basis. The liquidity risk is also minimised by close monitoring of surrenders and redemptions.

In addition, guidelines on asset allocation, portfolio limit structure and maturity profile of assets are also put in place to ensure sufficient funding is available to meet insurance and investment contracts' obligations. Compliance with the guidelines and policies, exposures and breaches are monitored and reported regular basis to the Company's Management Investment Committee ("MIC").

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(ii) Liquidity risk (continued)

Maturity analysis

Below is the summary table for the maturity profile of the financial assets and liabilities based on remaining undiscounted contractual obligations, including interest/profit payable and receivable. For insurance contracts liabilities, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unit-linked liabilities are repayable or transferable on demand and are included in the “Current” column. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Carrying value	Current	1 – 5 years	5 – 15 years	Over 15 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2017</u>							
Financial instruments:							
HTM	292,519	12,643	180,982	164,836	-	-	358,461
LAR	171,248	111,402	-	-	59,846	-	171,248
AFS	1,263,424	120,180	535,438	848,120	390,457	2,401	1,896,596
FVTPL	478,488	924	9,417	14,471	4,283	400,407	429,502
Accrued interest:							
HTM	3,916	3,916	-	-	-	-	3,916
LAR	13,392	13,392	-	-	-	-	13,392
AFS	13,861	13,861	-	-	-	-	13,861
FVTPL	224	224	-	-	-	-	224
Reinsurance assets	16,045	16,045	-	-	-	-	16,045
Insurance receivables	7,970	7,970	-	-	-	-	7,970
Other receivables	15,351	14,742	609	-	-	-	15,351
Cash and cash equivalents	6,179	6,179	-	-	-	-	6,179
Total assets	2,282,617	321,478	726,446	1,027,427	454,586	402,808	2,932,745

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(ii) Liquidity risk (continued)

Maturity analysis (continued)

	Carrying value	Current	1 – 5 years	5 – 15 years	Over 15 years	No maturity date	Total
<u>31 December 2017</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Insurance contract liabilities	1,808,763	494,798	431,814	937,127	1,122,190	-	2,985,929
Insurance payables	62,368	-	1,706	51,485	9,177	-	62,368
Other payables	40,598	40,598	-	-	-	-	40,598
	<u>1,911,729</u>	<u>535,396</u>	<u>433,520</u>	<u>988,612</u>	<u>1,131,367</u>	<u>-</u>	<u>3,088,895</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(ii) Liquidity risk (continued)

Maturity analysis (continued)

	Carrying value	Current	1 – 5 years	5 – 15 years	Over 15 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2016</u>							
Financial instruments:							
HTM	303,380	17,651	147,671	260,095	-	100	425,517
LAR	213,628	160,802	3,969	-	55,282	-	220,053
AFS	1,138,063	110,958	521,055	637,040	452,450	2,401	1,723,904
FVTPL	395,101	959	10,090	12,693	5,817	377,288	406,847
Accrued interest:							
HTM	4,113	4,113	-	-	-	-	4,113
LAR	12,342	12,342	-	-	-	-	12,342
AFS	12,630	12,630	-	-	-	-	12,630
FVTPL	224	224	-	-	-	-	224
Reinsurance assets	19,466	19,466	-	-	-	-	19,466
Insurance receivables	15,945	15,945	-	-	-	-	15,945
Other receivables	30,495	29,730	765	-	-	-	30,495
Cash and cash equivalents	28,373	28,373	-	-	-	-	28,373
Total assets	<u>2,173,760</u>	<u>413,193</u>	<u>683,550</u>	<u>909,828</u>	<u>513,549</u>	<u>379,789</u>	<u>2,899,909</u>
<u>31 December 2016</u>							
Insurance contract liabilities	1,629,297	425,231	428,293	910,338	789,063	-	2,552,925
Insurance payables	93,687	31,318	1,707	51,485	9,177	-	93,687
Other payables	41,422	41,422	-	-	-	-	41,422
	<u>1,764,406</u>	<u>497,971</u>	<u>430,000</u>	<u>961,823</u>	<u>798,240</u>	<u>-</u>	<u>2,688,034</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(f) **Financial Risk (continued)**

(iii) **Market risk**

Market risk is the risk that the fair value of assets or future cash flows of assets supporting the insurance/investment contract liabilities, or the carrying value of the contract liabilities will fluctuate because of changes in market prices and rates. These include changes in equity prices, interest rates and exchange rates. Market risk also includes such factors as changes in economic environment, consumption pattern and investor's expectation that may have significant impact on the value of the investments.

The Company distinguishes market risk as follows:

- (a) Interest rate risk; and
- (b) Equity price risk; and
- (c) Currency risk.

The Company manages market risk by putting in place investment mandates and policies to ensure that appropriate investment strategy is adopted by the fund managers. In addition, asset allocation, portfolio and exposure limit structure as well as performance benchmark are also set to ensure that assets support the specific contract liabilities and that assets held are adequate and sufficient to deliver income and gains to policyholders in accordance with the terms of respective contracts and in line with the policyholders' expectations. Compliance with the investment mandates and policies is monitored and reported regularly to the Company's "MIC" and exposures and breaches are reported as soon as practicable.

The Company also issues investment-linked policies. 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 net asset value of the funds. The Company's exposure to market risk on this business is therefore limited to the extent that income arising from asset management charges is based on the net asset value of the funds.

(a) **Interest rate risk**

The Company is exposed to interest rate risk primarily through investments of insurance funds in fixed income securities, credit facilities as well as cash deposits.

The presence of interest rate risk is the result of asset-liability duration mismatch. To illustrate, since the duration of contract liabilities is longer than the duration of assets, the Company's financial position is vulnerable to decrease in interest rates. When interest rates fall, the value of liabilities will increase significantly more than the value of assets due to the asset-liability duration mismatch, thus reducing the insurance fund's surplus.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(f) **Financial Risk (continued)**

(iii) **Market risk (continued)**

(a) **Interest rate risk (continued)**

As one of the reasons for asset-liability duration mismatch is the scarcity of longer tenure assets in the local financial market, the Company has adopted investment strategy that focuses on identifying suitable investment opportunities which can lengthen the duration of assets and acquiring longer tenure assets whenever available so as to mitigate interest rate risk.

The Company has no significant concentration of interest rate risk.

The sensitivity analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax for the financial year ended:

<u>Change in variables</u>	<u>Impact on equity before tax*</u>	<u>Impact on policyholders' fund</u>
	RM'000	RM'000
<u>31 December 2017</u>		
+50 basis points	(1,518)	(47,230)
-50 basis points	1,542	39,784
<u>31 December 2016</u>		
+50 basis points	(2,129)	(43,903)
-50 basis points	2,177	35,045

The impact to the Company's equity arises from the shareholders' fund investment in fixed income securities which are classified as financial assets. In the above analysis, the impact arising from changes in interest rate risk to fixed income securities and liabilities of the life fund are retained in the life insurance contract liabilities.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(f) **Financial Risk (continued)**

(iii) **Market risk (continued)**

(b) **Equity price risk**

The Company is exposed to equity price risk through direct investments in equity of listed and unlisted companies by both life insurance funds and shareholders' fund as the Company bears some of the volatility in returns and investment performance risk.

Equity price risk also exists in investment-linked products as the revenue of the insurance operations are linked to the value of the underlying equity funds and this has an impact on the level of fees earned.

The Company monitors its equity exposure against a benchmark set and agreed by the "MIC". The portfolio benchmarks include indices such as the Kuala Lumpur Composite Index and the FTSE Bursa Malaysia Index.

The Company's investment policy also requires it to manage market risk by monitoring the country, sector and single security exposure of the portfolio against the internal investment limits as well as regulatory limits stipulated by BNM. The Company has complied with both the internal and BNM stipulated investment limits during the financial year and has no significant concentration of equity price risk.

The sensitivity analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax for the financial year ended:

	Change in variables	Impact on equity	Impact on policyholders' fund and liabilities
<u>31 December 2017</u>		RM'000	RM'000
Bursa Malaysia	30%	17,952	71,062
Bursa Malaysia	-30%	(17,952)	(71,062)
<u>31 December 2016</u>			
Bursa Malaysia	30%	3,243	69,546
Bursa Malaysia	-30%	(3,243)	(69,546)

The potential impact arising from other market indices are deemed insignificant as the Company's holdings in equity securities listed in other bourses are not material.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(iii) Market risk (continued)

(c) Currency risk

Currency risk is the risk that relative changes in currency values will ultimately decrease the value of foreign assets or increase the value of financial obligations denominated in foreign currencies.

As the Company operates mainly in Malaysia, its financial assets are primarily maintained in Malaysia as required under the Financial Services Act, 2013, and are primarily denominated in the same currency (the local RM) as its insurance and investment contract liabilities. Therefore, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which the insurance and investment contract liabilities are expected to be settled.

The Company does not engage in derivative transactions for speculative or hedging purposes.

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

In the investment-linked business, the policyholders bear the currency risk on the foreign assets held in some of the investment-linked funds as the policy benefits are directly linked to the net asset value of the funds. The Company's exposure to currency risk on this business is therefore limited to the extent that income arising from asset management charges is based on the net asset value of the funds.

	Singapore Dollar	Hong Kong Dollar	Indonesia Rupiah	Korea Won	Thai Baht	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>At 31 December 2017</u>						
Financial instruments:						
FVTPL	37,627	3,529	990	849	1,542	44,537
Total FVTPL – outside Malaysia	<u>37,627</u>	<u>3,529</u>	<u>990</u>	<u>849</u>	<u>1,542</u>	<u>44,537</u>
<u>At 31 December 2016</u>						
Financial instruments:						
FVTPL	38,145	2,676	1,557	-	554	42,932
Total FVTPL – outside Malaysia	<u>38,145</u>	<u>2,676</u>	<u>1,557</u>	<u>-</u>	<u>554</u>	<u>42,932</u>

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

31 **RISK MANAGEMENT FRAMEWORK (CONTINUED)**

(g) **Operational risk**

Operational risk may be defined as the risk of loss arising from system failure, inadequate or failed internal processes, human factors, from internal and/or external events. When the controls measures in place are inadequate or poorly implemented, it may expose the Company to Operational Risks. These Operational Risks, if materialised, may lead to both financial and/or non-financial losses.

In mitigating this, the Company ensures the controls are implemented when discharging.

Business and operational activities continue to be relevant and effective. The manner in which operational risk is managed can be best demonstrated through implementation of proper governance structure, supported by over-arching framework of policies, procedures and standards. Some of the controls being implemented include clear reporting lines, proper segregation of duties and responsibilities, adequate check and balance, properly defined role-based access controls, authorisation and reconciliation procedures, staff training and evaluation procedures to name a few.

In order to gauge the effectiveness of the controls being put in place, all business and/or Operational Head perform thorough risk identification and assessment of risk. In order to mitigate of identified risks (moderate and above), the Business and/or Operational Heads will assess and implement mitigation action plans to manage the risk to within acceptable limits.

The Risk Management and Compliance function continues to play proactive role in ensuring that proper programs are in place to instill the right control culture within the Company and at the same time, works with the Business and/or Operational Heads to assess the appropriateness of controls and remedial action plans being implemented in mitigating the risks, consistent with its control and oversight responsibilities.

The Internal Audit function will perform its independent assurance work to ensure that the risk management and oversight approach undertaken, systems of internal controls, governance process of the Company are adequate, relevant and effective in managing the risks.

(h) **Strategic risk**

Strategic risk is the risk of loss arising from adverse business decisions, improper implementation of those decisions, and lack of responsiveness to industry or competitive environmental changes. This risk is monitored through the Company's strategic planning and budgeting process.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32 INSURANCE FUNDS

The Company's activities are organised by funds and segregated into the life and shareholders' fund in accordance with Financial Services Act, 2013.

Statement of Financial Position by Funds
For the financial year ended

	Shareholders' Fund		Life Fund		Investment-linked Funds		Elimination		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets										
Properties and equipment	-	-	10,421	27,473	-	-	-	-	10,421	27,473
Investment property	-	-	5,500	6,200	-	-	-	-	5,500	6,200
Intangible assets	-	-	9,255	9,626	-	-	-	-	9,255	9,626
Prepaid lease property	-	-	231	234	-	-	-	-	231	234
Investments	213,668	209,106	1,839,682	1,714,848	189,523	161,200	(5,801)	(5,673)	2,237,072	2,079,481
Reinsurance assets	-	-	16,045	19,466	-	-	-	-	16,045	19,466
Insurance receivables	-	-	7,970	15,945	-	-	-	-	7,970	15,945
Other receivables	182,362	244,904	6,278	6,885	8,856	19,945	(182,145)	(244,440)	15,351	27,294
Tax recoverable	-	1,789	-	761	-	651	-	-	-	3,201
Cash and cash equivalents	343	100	5,805	28,254	31	19	-	-	6,179	28,373
Total Assets	396,373	455,899	1,901,187	1,829,692	198,410	181,815	(187,946)	(250,113)	2,308,024	2,217,293
Share capital	125,000	125,000	-	-	-	-	-	-	125,000	125,000
Retained earnings	234,365	277,971	-	-	-	-	-	-	234,365	277,971
AFS fair value reserves	(585)	(832)	-	-	-	-	-	-	(585)	(832)
Asset revaluation reserves	318	2,625	-	-	-	-	-	-	318	2,625
Total Equity	359,098	404,764	-	-	-	-	-	-	359,098	404,764
Insurance contract liabilities	-	-	1,617,842	1,452,538	196,722	182,432	(5,801)	(5,673)	1,808,763	1,629,297
Deferred tax liabilities	34,691	48,738	1,534	40	-	(655)	-	-	36,225	48,123
Insurance payables	-	-	62,368	93,687	-	-	-	-	62,368	93,687
Tax payables	96	-	907	-	(31)	-	-	-	972	-
Other payables	2,488	2,397	218,536	283,427	1,719	38	(182,145)	(244,440)	40,598	41,422
Total Liabilities	37,275	51,135	1,901,187	1,829,692	198,410	181,815	(187,946)	(250,113)	1,948,926	1,812,529
Total Policyholders' Fund and Liabilities	396,373	455,899	1,901,187	1,829,692	198,410	181,815	(187,946)	(250,113)	2,308,024	2,217,293

Company No.

277714

A

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32 **INSURANCE FUNDS (CONTINUED)**

Statement of Income by Funds
For the financial year ended

	Shareholders' Fund		Life Fund		Investment-Linked Fund		Elimination		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating revenue	8,271	8,319	350,578	354,934	32,666	33,366	-	-	391,515	396,619
Gross premium	-	-	267,536	277,392	28,228	28,900	-	-	295,764	306,292
Premium ceded to reinsurers	-	-	(10,111)	(14,665)	-	-	-	-	(10,111)	(14,665)
Net premiums	-	-	257,425	262,727	28,228	28,900	-	-	285,653	291,627
Investment income	8,271	8,319	83,042	77,542	4,438	4,466	-	-	95,751	90,327
Realised gains	1,007	(599)	11,807	2,516	15,466	11,409	-	-	28,280	13,326
Fair value gains/(losses)	269	518	21,484	(14,014)	8,269	(4,215)	(128)	(141)	29,894	(17,852)
Other operating income	(1,592)	4	3,215	1,787	368	298	-	-	1,991	2,089
Other income	7,955	8,242	119,548	67,831	28,541	11,958	(128)	(141)	155,916	87,890
Gross benefits and claims	-	-	(165,653)	(161,899)	(36,746)	(121,222)	-	-	(202,399)	(283,121)
Claims ceded to reinsurers	-	-	8,103	10,351	-	-	-	-	8,103	10,351
Gross change in contract liabilities	-	-	(137,816)	(34,809)	(14,290)	84,671	128	141	(151,978)	50,003
Change in contract liabilities to reinsurers	-	-	(1,762)	8,033	-	-	-	-	(1,762)	8,033
Net insurance benefits and claims	-	-	(297,128)	(178,324)	(51,036)	(36,551)	128	141	(348,036)	(214,734)

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32 **INSURANCE FUNDS (CONTINUED)**

Statement of Income by Funds
For the financial year ended (continued)

	Shareholders' Fund		Life Fund		Investment-Linked Fund		Elimination		Total	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Fee and commission expenses	-	-	(13,146)	(20,167)	-	-	-	-	(13,146)	(20,167)
Management expenses	(3,165)	(3,336)	(122,148)	(120,935)	(3,678)	(3,514)	-	-	(128,991)	(127,785)
Other expenses	(3,165)	(3,336)	(135,294)	(141,102)	(3,678)	(3,514)	-	-	(142,137)	(147,952)
Profit/(loss) before taxation	4,790	4,906	(55,449)	11,132	2,055	793	-	-	(48,604)	16,831
Income tax expense attributable to policyholders and unit holders	-	-	(3,803)	(1,645)	(2,055)	(793)	-	-	(5,858)	(2,438)
Profit/(loss) before tax attributable to shareholders	4,790	4,906	(59,252)	9,487	-	-	-	-	(54,462)	14,393
Transfer from revenue accounts	(62,425)	7,593	62,425	(7,593)	-	-	-	-	-	-
(Loss)/profit before taxation	(57,635)	12,499	3,173	1,894	-	-	-	-	(54,462)	14,393
Tax benefit/(expense)	11,722	(3,077)	(6,976)	(3,539)	(2,055)	(793)	-	-	2,691	(7,409)
Income tax expense attributable to policyholders and unit holders	-	-	3,803	1,645	2,055	793	-	-	5,858	2,438
Tax benefit/(expense) attributable to shareholders	11,722	(3,077)	(3,173)	(1,894)	-	-	-	-	8,549	(4,971)
(Loss)/profit for the financial year	(45,913)	9,422	-	-	-	-	-	-	(45,913)	9,422