

Company No.

277714	A
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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

1584A0/lh

Company No.

277714

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 31 December 2019.

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>(61,430)</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").

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GIBRALTAR BSN LIFE BERHAD
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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.

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GIBRALTAR BSN LIFE BERHAD
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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 financial 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 Board 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 six directors represented by four independent non-executive, one non-independent non-executive and one executive director 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 Board 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 Board 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 Board 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 24 October 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 Board on 20 January 2017. He is currently a member of Board Risk Management, Board Audit, Board Nomination and Board Remuneration Committees.

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

Dato' Haji Kamil Khalid 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 retirement he was appointed Chairman/Director of several other private companies.

Over his illustrious career spanning over 41 years, Dato' Haji Kamil Khalid served in numerous Management and Board positions in several large corporate entities which among others include, The New Straits Times, Kumpulan Perangsang Selangor Bhd, Kumpulan Guthrie Bhd and Idris Hydraulic Bhd. During this time, he was exposed to various multi-faceted industries that is 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.

GIBRALTAR BSN LIFE BERHAD
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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 as an Independent Non-Executive Director to the Board of Gibraltar BSN Life Berhad on 2 January 2014. He is the Chairman of the Board Risk Management and Board Remuneration Committees and a member of the Board Audit and Board Nomination Committees.

He started his career with the Malaysian Administrative and Diplomatic Services in 1966. He served over 30 years in government service holding 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. Dato' Danapalan has recently accepted the appointment to the Board of Instapay Technologies Sdn Bhd.

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

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, Board Nomination and Board Remuneration Committees.

Mr Ramesh started his career with Price Waterhouse's Financial Institutions specialism in London gaining experience in Audit, Consultancy and Corporate Finance assignments. He has over 32 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
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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 International Institute of Enterprise Risk Practitioners (IERP® - providing professional certification in Enterprise Risk Management) as well as the Group Managing Director of Friday Concepts (International), an International Boutique Risk Management, Governance and Compliance consultancy. He is also an Independent Non-Executive Director of AmInvestment Bank Berhad and AmGeneral Insurance Berhad. He is also a Board member of Brunei based Insurans Islam TAIB Holdings Sendirian Berhad Group.

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 as an Independent Non-Executive Director on 24 January 2017. He is the Chairman of Board Audit and Board Nomination and a member of Board Risk Management 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. Encik Kameel Abdul Halim
Non-Independent Non-Executive Director

Encik Kameel Abdul Halim was appointed as a Non-Independent Non-Executive Director of Gibraltar BSN Life Berhad on 29 March 2018. He is a member of the Board Remuneration Committee. Encik Kameel is currently the Chief Operating Officer of Bank Simpanan Nasional ("BSN") where he oversee BSN's banking and credit operations, treasury and investment, digital banking as well as information technology.

Encik Kameel has over 21 years of banking experience comprising both commercial banking, central banking and development finance. He first began his career at HSBC (M) Berhad with exposures in branch operations, trade finance and credit lending. He then left to join the Central Bank of Malaysia where for 12 years has served in several key departments including supervision, surveillance and policy development.

Encik Kameel holds a Master's Degree in Risk Management from University of Nottingham.

GIBRALTAR BSN LIFE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Profile of the Directors (continued)

6. Mr Jonathan Graybill
Executive Director

Mr Jonathan Graybill, President, Asia ex-Japan, The Prudential International Insurance ("Prudential") was appointed as an Executive Director of Gibraltar BSN Life Berhad on 18 September 2017. He is a member of the Board Nomination Committee.

Mr Graybill has a long and successful track record at Prudential with more than 30 years of service. He started as an accounting specialist in the Retirement business and subsequently joined the U.S. Individual Life Insurance Operations & Systems where he quickly took on greater responsibilities. He moved to the international division in 2013 as the Head of Operations & Systems and leveraged his experience in the U.S. to raise the standards across Prudential. The Gibraltar BSN joint venture in Malaysia was formed in 2014, and he led Prudential's efforts to build systems, processes and policies for the partnership to ensure the organisation met its customer commitments. He then moved to Singapore in 2016 as Regional President for the Asia region outside of Japan and has been focused on elevating the quality of talent and reinforcing Prudential's high ethical standards while advancing the growth of the business. Under his leadership, Prudential established the PFI Mega Life joint venture in Indonesia, one of the most complex markets in which Prudential does business. Mr Graybill was promoted to Senior Vice President, International Business in November 2018, in recognition of his strong leadership in highly complex and dynamic business environments.

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

7. 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 ("Prudential"). He joined Prudential in 1986 and has been a member of Prudential 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 Prudential from 2004 – 2009 and was instrumental in developing and implementing a formal risk based Control Assessment Protocol across all Prudential operations. Earlier in his career Mr Fisher served in a variety of roles in Finance, including Prudential Controller from 1997 – 2001. He also led the implementation of the Sarbanes-Oxley compliance in Prudential.

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

GIBRALTAR BSN LIFE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(d) Profile of the Directors (continued)

7. Mr Michael Scott Fisher
Executive Director (continued)

Mr Fisher is also the Chairman of Gibraltar Re Bermuda, and is a Director of Prudential Holdings Japan and Prudential of Japan.

Mr Fisher resigned as a member of the Board of the Company on 20 August 2019.

(e) The Board meetings and attendance for the financial year ended 31 December 2019 are as follows:

<u>Name of Directors</u>	<u>Number of Board meetings (Attended/Held)</u>
Dato' Haji Kamil Khalid Ariff (Chairman)	6 / 6
Dato' Danapalan A/L T.P. Vinggrasalam	6 / 6
Ramesh Pillai	6 / 6
Oh Teik Tatt	6 / 6
Michael Scott Fisher (<i>Resigned on 20 August 2019</i>)	3 / 4
Jonathan Graybill	6 / 6
Kameel bin Abdul Halim	6 / 6

(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

Apart from the Financial Institutions Directors' Education ("FIDE") Programme accredited by International Centre for Leadership in Finance ("ICLIF"), the Directors are encouraged to attend continuous education programs and seminars to keep abreast with developments in the industry. The Company also keeps a record of the Directors' training programs and attendance to the said programme.

During the year, the Directors participated in the following events:-

- Fintech Industry Conference 2019
- Emerging Risks, the Future Board and Return on Compliance
- Enterprise Risk Management: Dealing with the New Wave by IERP

GIBRALTAR BSN LIFE BERHAD
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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;
- made judgements and estimates that are reasonable and prudent;
- 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 four (4) Board committees (Board Audit, Board Remuneration, Board Nomination and Board Risk Management Committees), details of which are set out below. These Board 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.

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(k) Board Audit Committee

The Board Audit Committee meetings and attendance for the financial year ended 31 December 2019 are as follows:

<u>Name of Directors</u>	<u>Number of Audit meetings (Attended/Held)</u>
Oh Teik Tatt (Chairman)	4 / 4
Dato' Haji Kamil Khalid Ariff	4 / 4
Dato' Danapalan A/L T.P. Vinggrasalam	4 / 4
Ramesh Pillai	4 / 4

The Board 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) Board Remuneration Committee

The Board Remuneration Committee meetings and attendance for the financial year ended 31 December 2019 are as follows:

<u>Name of Directors</u>	<u>Number of Remuneration meetings (Attended/Held)</u>
Dato' Danapalan A/L T.P. Vinggrasalam (Chairman)	3 / 3
Dato' Haji Kamil Khalid Ariff	3 / 3
Oh Teik Tatt	3 / 3
Ramesh Pillai	3 / 3
Kameel bin Abdul Halim	3 / 3

GIBRALTAR BSN LIFE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(l) Board Remuneration Committee (continued)

The Board 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 25 to the financial statements, meeting the minimum requirement of BNM/RH/STD 032-5.

(m) Board Nomination Committee

The Board Nomination Committee meetings and attendance for the financial year ended 31 December 2019 are as follows:

<u>Name of Directors</u>	<u>Number of Nomination meetings (Attended/Held)</u>
Oh Teik Tatt (Chairman)	5 / 5
Dato' Haji Kamil Khalid Ariff	5 / 5
Jonathan Graybill	5 / 5
Dato' Danapalan A/L T.P. Vinggrasalam	5 / 5
Ramesh Pillai	5 / 5

The Board 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
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

(n) Board Risk Management Committee

The Board Risk Management Committee meetings and attendance for the financial year ended 31 December 2019 are as follows:

<u>Name of Directors</u>	<u>Number of Risk meetings (Attended/Held)</u>
Dato' Danapalan A/L T.P. Vinggrasalam (Chairman)	4 / 4
Dato' Haji Kamil Khalid Ariff	4 / 4
Ramesh Pillai	4 / 4
Oh Teik Tatt	4 / 4

The duties and responsibilities of the Board Risk Management Committee are guided by its approved Terms of Reference by the Board of Directors. The key roles of the committee are as follows: -

- (a) To review and approve the Annual Plan of Risk Management and Compliance Department;
- (b) To review and recommend frameworks, policies, risk appetite of Risk Management and Compliance Departments for the Board's approval;
- (c) To review and ensure that adequate infrastructure, resources and systems are in place for Risk Management and Compliance Departments to effectively carry out their respective responsibilities;
- (d) To receive and review periodic reports from Risk Management and Compliance Departments on risk exposure, risk profile, fraud related matters, regulatory developments and compliance events;
- (e) To review Risk Management and Compliance reports as well as provide recommendations and constructive challenge to Senior Management.

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GIBRALTAR BSN LIFE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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.

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GIBRALTAR BSN LIFE BERHAD
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DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

Details of auditors' remuneration are set out in Note 25 to the financial statements.

Signed on behalf of the Board in accordance with their resolution dated 27 February 2020.



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



.....
SH TEIK TATT
DIRECTOR

Kuala Lumpur, Wilayah Persekutuan

Company No.

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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 21 to 109 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2019 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 27 February 2020.



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 21 to 109 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 27 February 2020, before me.





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 2019, and of its financial performance and its cash flows for the financial 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 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 21 to 109.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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



**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)

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.

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.



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)

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.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company 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.



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

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 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.

A handwritten signature in black ink, appearing to be 'Rufi', written over the printed name of the firm.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Wong Hui Chern', written over the printed name of the accountant.

WONG HUI CHERN
03252/05/2020 J
Chartered Accountant

Kuala Lumpur
27 February 2020

Company No.

277714	A
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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
ASSETS			
Properties and equipment	3	13,676	10,204
Investment property	4	5,350	11,000
Intangible assets	5	6,656	6,927
Prepaid lease property	6	224	227
Right-of-use assets	7	22,708	-
Investments	8	1,960,977	1,965,557
Held-to-maturity financial assets ("HTM")		213,564	259,465
Loans and receivables ("LAR")		60,725	60,247
Available-for-sale financial assets ("AFS")		1,171,021	1,282,706
Fair value through profit and loss financial assets ("FVTPL")		515,667	363,139
Reinsurance assets	9	11,547	13,012
Insurance receivables	10	8,553	9,575
Other receivables	11	20,016	24,924
Cash and cash equivalents		161,990	247,269
TOTAL ASSETS		2,211,697	2,288,695

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

Company No.

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 (CONTINUED)

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
EQUITY AND LIABILITIES			
Share capital	12	125,000	125,000
Retained earnings	13 (a)	160,004	221,434
Available-for-sale fair value reserves	13 (b)	25,409	2,344
Asset revaluation reserves	13 (b)	46	46
TOTAL EQUITY		<u>310,459</u>	<u>348,824</u>
Insurance contract liabilities	14	1,748,040	1,806,780
Deferred tax liabilities	15	35,479	33,815
Insurance payables	16	53,994	52,658
Tax payable		2,177	408
Other payables	17	38,056	46,210
Lease liabilities		23,492	-
TOTAL LIABILITIES		<u>1,901,238</u>	<u>1,939,871</u>
TOTAL EQUITY AND LIABILITIES		<u>2,211,697</u>	<u>2,288,695</u>

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

Company No.

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
Operating revenue	18	<u>329,009</u>	<u>381,646</u>
Gross premiums	19 (a)	235,163	282,367
Premiums ceded to reinsurers	19 (b)	<u>(9,963)</u>	<u>(12,772)</u>
Net premiums		<u>225,200</u>	<u>269,595</u>
Investment income	20	93,846	99,279
Realised gains /(losses)	21	15,948	(21,866)
Fair value gains /(losses)	22	61,975	(22,674)
Other operating income	23	<u>2,316</u>	<u>7,478</u>
Other income		<u>174,085</u>	<u>62,217</u>
Gross benefits and claims	24 (a)	(410,543)	(212,499)
Claims ceded to reinsurers	24 (b)	8,617	3,342
Gross change in contract liabilities	24 (c)	71,478	18,220
Change in contract liabilities ceded to reinsurers	24 (d)	<u>(105)</u>	<u>(1,432)</u>
Net insurance benefits and claims		<u>(330,553)</u>	<u>(192,369)</u>
Fee and commission expenses		(14,189)	(16,015)
Management expenses	25	<u>(118,610)</u>	<u>(131,709)</u>
Other expenses		<u>(132,799)</u>	<u>(147,724)</u>
Loss before taxation		(64,067)	(8,281)
Tax benefit/(expense)	26	<u>2,637</u>	<u>(4,650)</u>
Loss for the financial year		<u>(61,430)</u>	<u>(12,931)</u>
Basic diluted loss per share (sen)	27	<u>(49.14)</u>	<u>(10.34)</u>

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

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

**STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
Loss for the financial year		<u>(61,430)</u>	<u>(12,931)</u>
Other comprehensive income/(loss):			
<u>Item that may be subsequently reclassified to statement of income:</u>			
Available-for-sale fair value reserves			
- Gross fair value changes	8(e)	69,047	10,186
- Taxation	15	(10,916)	(1,506)
Change in insurance contract liabilities arising from			
- Fair value changes in available-for-sale assets	14	(36,865)	(6,251)
- Taxation	14	1,799	500
		<u>23,065</u>	<u>2,929</u>
<u>Item that may not be subsequently reclassified to statement of income:</u>			
Gross deficit from revaluation of properties and equipment		(150)	(483)
Taxation	15	-	211
Change in insurance contract liabilities arising from			
- Deficit from revaluation of properties and equipment		150	-
		<u>-</u>	<u>(272)</u>
Total comprehensive loss for the financial year		<u><u>(38,365)</u></u>	<u><u>(10,274)</u></u>

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

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Non-distributable				Distributable	Total RM'000
	Share capital RM'000	Assets revaluation reserves RM'000	Available for-sale fair value reserves RM'000	Life non participating surplus * RM'000	Retained earnings RM'000	
As at 1 January 2019	125,000	46	2,344	140,604	80,830	348,824
Other comprehensive income for the financial year	-	-	23,065	-	-	23,065
Loss for the financial year	-	-	-	(57,730)	(3,700)	(61,430)
At 31 December 2019	<u>125,000</u>	<u>46</u>	<u>25,409</u>	<u>82,874</u>	<u>77,130</u>	<u>310,459</u>
As at 1 January 2018	125,000	318	(585)	147,673	86,692	359,098
Other comprehensive (loss)/income for the financial year	-	(272)	2,929	-	-	2,657
Loss for the financial year	-	-	-	(7,069)	(5,862)	(12,931)
At 31 December 2018	<u>125,000</u>	<u>46</u>	<u>2,344</u>	<u>140,604</u>	<u>80,830</u>	<u>348,824</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 2019

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
OPERATING ACTIVITIES			
Cash used in operating activities	28	(167,596)	40,553
Dividend income received		12,726	13,051
Interest/profit income received		82,020	86,593
Interest paid on lease liabilities		1,302	-
Rental income on investment property received		278	360
Income tax refund		1,478	-
Income tax paid		(6,300)	(8,767)
Net cash flow generated from operating activities		<u>(76,092)</u>	<u>131,790</u>
INVESTING ACTIVITIES			
Proceeds from disposal of properties and equipment		5	(4,051)
Proceeds from disposal of intangible asset		-	286
Purchase of properties and equipment		(1,682)	(9,438)
Purchase of intangible assets		(3,669)	(1,266)
Net cash flow used in investing activities		<u>(5,346)</u>	<u>(14,469)</u>
FINANCING ACTIVITIES			
Repayment of lease liabilities		(3,841)	-
Net cash flow used in financing activities		<u>(3,841)</u>	<u>-</u>
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(85,279)	117,321
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		247,269	129,948
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>161,990</u>	<u>247,269</u>
Cash and cash equivalents comprise:			
Cash and bank balances		<u>161,990</u>	<u>247,269</u>
		<u>161,990</u>	<u>247,269</u>

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

Company No.

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GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 21, Mercu 2, No 3, Jalan Bangsar, KL Eco City, 59200 Kuala Lumpur.

The principal place of business of the Company is located at Level 21, Mercu 2, No 3, Jalan Bangsar, KL Eco City, 59200 Kuala Lumpur.

The financial statements were authorised for issue by the Board in accordance with a resolution of the Directors dated 27 February 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company for the financial year ended 31 December 2019 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 judgement 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 judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.28 to the financial statements.

The following are accounting standards, amendments, and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") for the financial year beginning on or after 1 January 2019 and adopted by the Company:

- MFRS 16 'Leases'
- Amendments to MFRS 9 'Prepayment Features with Negative Compensation'
- Amendments to MFRS 128 'Long-term Interests in Associates and Joint Ventures'
- Amendments to MFRS 119 'Plan Amendment, Curtailment or Settlement'
- IC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Annual Improvements to MFRSs 2015 – 2017 Cycle

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

The Company has adopted MFRS 16 for the first time in the 2019 financial statements with the date of initial application (“DIA”) of 1 January 2019 by applying the simplified retrospective transition method. The practical expedients elected and the detailed impacts of the changes in accounting policies on leases are disclosed in Note 7 to the financial statement. The details of the accounting policies on leases are disclosed separately in Note 2.7 to the financial statement.

- **MFRS 16 ‘Leases’**

MFRS 16 ‘Leases’ 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.

The Company adopted MFRS 16 using the modified retrospective approach and measured the right-of-use assets equals to the lease liabilities as at 1 January 2019 with no restatement of comparative information, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018.

The adoption of MFRS 16, Leases has resulted in changes in the Company’s accounting policies. The effect arising from these changes on the statement of financial position of the Company are as follows:

	31 December 2018	Effect on adoption of MFRS 16	1 January 2019
	RM’000	RM’000	RM’000
Assets			
Right-of-use assets	-	25,360	25,360
Liabilities			
Lease liabilities	-	25,360	25,360

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities and on hedge accounting.

The Company's business activities are predominantly insurance and hence qualify for the temporary exemption from applying MFRS 9 under the Amendments to MFRS 4, Insurance Contracts. Hence, the Company will defer and adopt MFRS 9 together with MFRS 17, Insurance Contracts on 1 January 2021.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9 and intends to adopt MFRS 9 together with MFRS 17 on 1 January 2021.

- Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts.

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 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for the Company:

- temporary exemption from MFRS 9 for entities that meet specific requirements; and
- the overlay approach. Both approaches are optional

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 to 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 and may start applying the overlay approach when it applies MFRS 9 for the first time.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- Amendments to MFRS 4 - Applying MFRS 9 - Financial Instruments with MFRS 4 - Insurance Contracts. (continued)

The Company's business activity is predominantly insurance as the liabilities connected with the Company's insurance businesses made up of more than 90% of the Company's total liabilities. Hence, the Company qualifies for the temporary exemption from applying MFRS 9 and will defer and adopt MFRS 9 together with MFRS 17, Insurance Contracts for the financial year beginning on or after 1 January 2021.

The following additional disclosures, required by Amendments to MFRS 4 for entity qualified and elected the temporary exemption from applying MFRS 9, present the Company's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

Financial assets	Fair value as at 31.12.2019 RM'000	Change in fair value RM'000	Cash flows characteristic
Malaysia government securities	10,624	528	SPPI
Malaysian government guaranteed bonds	721,462	51,831	SPPI
Unquoted debt securities	661,093	24,443	SPPI
Quoted equity securities	304,841	19,294	Non SPPI
Quoted unit trust and property trust funds	181,918	8,485	Non SPPI
Unquoted equity securities	3,719	-	Non SPPI
Fixed deposits	1,093	-	SPPI
Loan and receivable ("LAR")	59,632	-	SPPI
Cash and cash equivalent	161,990	-	SPPI
	<u>2,106,372</u>	<u>104,581</u>	

Insurance receivables and reinsurance assets have been excluded from the above assessment as they are under the scope of MFRS 17 Insurance Contracts.

Other than the financial assets included in the table above and assets that are within the scope of MFRS 17 Insurance Contracts, all other assets in the statement of financial position are non-financial asset.

All financial assets with SPPI cash flows of the Company as at 31 December 2019 have low credit risk and is disclosed in Note 32 to the financial statements.

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.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) The following are accounting standards, amendments to standards and interpretations that have been issued by MASB but not yet effective and have not been early adopted by the Company:

(i) MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020.

- Amendments to MFRS 101, Presentation of Financial Statements - Definition of Material
- Amendments to MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material

(ii) MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021.

- MFRS 17 replaces the guidance in 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 from Contracts with Customers'. 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.

GIBRALTAR BSN LIFE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) The following are accounting standards, amendments to standards and interpretations that have been issued by MASB but not yet effective and have not been early adopted by the Company: (continued)

(ii) MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021.(continued)

- MFRS 17 replaces the guidance in MFRS 4, Insurance Contracts. (continued)

Alternative measurement models are provided for the different insurance coverages:

- (a) Simplified Premium Allocation Approach if the insurance coverage period is a year or less;
- (b) 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 is currently assessing the financial impact that may arise from the adoption of MFRS 17.

The initial application of the abovementioned new standards, amendments to standards or interpretations issued by MASB effective for periods subsequent to 1 January 2019 are not expected to have any material financial impact to the current period and prior period financial statements of the Company except as mentioned above.

GIBRALTAR BSN LIFE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in Accounting Policy upon Adoption of MFRS 16

During the financial year, the Company changed its accounting policies on leases upon adoption of MFRS 16. The Company has elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in MFRS 16.

Under the simplified retrospective transition method, the 2018 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Company is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 'Leases' and IC Interpretation 4 "Determining whether an Arrangement Contains a Lease".

In addition, the Company has elected not to reassess whether a contract is, or contains a lease at the DIA. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying MFRS 117 and IC Interpretation 4.

Leases classified as operating leases under MFRS 117

On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The associated right-of-use ("ROU") assets for property leases were measured on a retrospective basis as if the new requirements has always been applied. Other ROU assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

In applying MFRS 16 for the first time, the Company has applied the following practical expedients permitted by the standard to leases previously classified as operating leases under MFRS 117:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the ROU asset at the DIA; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 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 vehicle	5 years
Office equipment	4 years
Computer	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.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 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 Note 2.25 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.

2.4 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.

2.5 Investment property

Investment property includes 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 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.

2.7 Lease

The Company as a Lessee.

Accounting policies applied from 1 January 2019

From 1 January 2019, leases are recognised as ROU assets and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Company is a lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

(i) Lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Company reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities.

(ii) ROU assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Right-of-use assets (continued)

(ii) ROU assets (continued)

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

(iii) Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the management expenses in the statement of income and statement of comprehensive income.

(iv) Reassessment of lease liabilities

The Company is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Right-of-use assets (continued)

(v) Short term leases and leases of low value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line bases as an expense in profit or loss.

Accounting policies on lessee accounting applied until 31 December 2018

Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the lease period.

Initial direct costs incurred by the Company in negotiating and arranging operating leases are recognised in profit or loss when incurred.

2.8 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 2.25 to the financial statements.

Insurance receivables are derecognised when the recognition criteria for financial assets, as described in Note 2.24 to the financial statements, have been met.

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash, balances and deposits held at call with financial institutions with maturities of three months or less that are readily convertible to known amount of cash which are subject to an insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 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.

2.11 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.

2.12 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.

2.13 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Product classification

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

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

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

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

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

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

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

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GIBRALTAR BSN LIFE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 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.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Life insurance contract liabilities (continued)

Unallocated surplus

Surplus of contracts with DPF is 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. Surplus of contracts without DPF is attributable wholly to the shareholders and is classified as an equity of the Company. However, the amount and timing of the distribution of surplus of contracts without DPF to the shareholders is subject to the recommendation of the Company's appointed actuary. Unallocated surpluses of DPF, where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

Liability adequacy test

BNM Guidelines on Financial Reporting for Insurers (BNM/RH/PD 032-13) 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).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Life insurance contract liabilities (continued)

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.

2.18 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 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.

2.19 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 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.

2.21 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.

2.22 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 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.

2.23 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.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Fair value of financial instruments (continued)

The fair value of debenture securities (Malaysia Government Securities, debt securities) are measured based on the lower threshold 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 2.25 to the financial statements).

2.24 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.

2.25 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 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.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 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.

2.26 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.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 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.

2.28 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.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 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 is 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 32(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 judgement to be exercised.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3 PROPERTIES AND EQUIPMENT

	<u>Note</u>	<u>Buildings</u> RM'000	<u>Motor</u> <u>vehicles</u> RM'000	<u>Office</u> <u>equipment</u> <u>and</u> <u>computers</u> RM'000	<u>Furniture</u> <u>fittings</u> <u>and</u> <u>renovation</u> RM'000	<u>Total</u> RM'000
<u>Cost/valuation</u>						
At 1 January 2019		280	698	20,149	13,915	35,042
Additions		-	-	730	952	1,682
Disposals		-	(92)	(1,353)	(1,162)	(2,607)
Revaluation loss recorded in Insurance contract liabilities		(150)	-	-	-	(150)
Reclass from renovation		-	-	641	(712)	(71)
Reclass from investment property	4	5,500	-	-	-	5,500
At 31 December 2019		<u>5,630</u>	<u>606</u>	<u>20,167</u>	<u>12,993</u>	<u>39,396</u>
<u>Accumulated depreciation</u>						
At 1 January 2019		-	131	18,328	6,379	24,838
Disposals		-	(84)	(1,356)	(1,157)	(2,597)
Reversal on accumulated depreciation on property		(81)	-	-	-	(81)
Depreciation charge for the financial year	25	81	135	1,535	1,809	3,560
At 31 December 2019		<u>-</u>	<u>182</u>	<u>18,507</u>	<u>7,031</u>	<u>25,720</u>
<u>Net book value</u>						
At 31 December 2019		<u>5,630</u>	<u>424</u>	<u>1,660</u>	<u>5,962</u>	<u>13,676</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3 PROPERTIES AND EQUIPMENT (CONTINUED)

	<u>Note</u>	<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 2018		5,800	699	20,015	9,970	36,484
Additions		-	7	1,080	8,351	9,438
Disposals		-	(8)	(946)	(4,406)	(5,360)
Revaluation loss recorded in Insurance contract liabilities		(16)	-	-	-	(16)
Revaluation loss recorded in other comprehensive income		(4)	-	-	-	(4)
Transfer to investment property		(5,500)	-	-	-	(5,500)
At 31 December 2018		<u>280</u>	<u>698</u>	<u>20,149</u>	<u>13,915</u>	<u>35,042</u>
<u>Accumulated depreciation</u>						
At 1 January 2018		-	92	16,774	9,197	26,063
Disposals		-	(8)	(935)	(4,131)	(5,074)
Reversal on accumulated depreciation on property		(65)	-	-	-	(65)
Depreciation charge for the financial year	25	65	47	2,489	1,313	3,914
At 31 December 2018		<u>-</u>	<u>131</u>	<u>18,328</u>	<u>6,379</u>	<u>24,838</u>
<u>Net book value</u>						
At 31 December 2018		<u>280</u>	<u>567</u>	<u>1,821</u>	<u>7,536</u>	<u>10,204</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3 PROPERTIES AND EQUIPMENT (CONTINUED)

Had the 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>2019</u> RM'000	<u>2018</u> RM'000
Freehold building and long term leasehold buildings	<u>4,511</u>	<u>145</u>

The long term leasehold buildings have unexpired lease periods from 59 years to 74 years (2018: 75 years).

Fair value information

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Buildings	<u>5,630</u>	<u>280</u>
Total buildings	<u>5,630</u>	<u>280</u>

The fair value of the long term leasehold buildings were measured using a valuation technique based on assumption supported by prices from observable current market transactions as well as the discounted cash flows (at discount rates 5.50%) (2018: 5.50% to 6.00%) of the current rental income based on usual tenancy terms in open market values.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

4 INVESTMENT PROPERTY

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
At 1 January		11,000	5,500
Reclass (to)/from property, plant and equipment	3	(5,500)	5,439
Fair value changes	22	<u>(150)</u>	<u>61</u>
At 31 December		<u>5,350</u>	<u>11,000</u>
The following investment property is held under lease terms:			
Leasehold building		<u>5,350</u>	<u>11,000</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 2019. 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>2019</u> RM'000	<u>2018</u> RM'000
Investment property	<u>5,350</u>	<u>11,000</u>

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

	<u>2019</u> RM'000	<u>2018</u> RM'000
Rental income	427	414
Direct operating expenses	<u>(149)</u>	<u>(147)</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 discount rates 5.50%) (2018: 5.50% to 6.00%) of the current rental income based on usual tenancy terms in open market values.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

5 INTANGIBLE ASSETS

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Software costs</u>			
<u>Cost</u>			
At 1 January		25,253	24,120
Additions		3,669	1,266
Reclass from renovation		71	-
Disposal		-	(133)
At 31 December		28,993	25,253
<u>Accumulated amortisation</u>			
At 1 January		18,326	14,865
Charge for the financial year	25	4,017	3,585
Write-off		(6)	-
Disposal		-	(124)
At 31 December		22,337	18,326
<u>Net book value</u>			
At 31 December		6,656	6,927

6 PREPAID LEASE PROPERTY

		<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Cost</u>			
At 1 January		265	265
<u>Accumulated amortisation</u>			
At 1 January		38	34
Charge for the financial year	25	3	4
At 31 December		41	38
<u>Net book value</u>			
At 31 December		224	227

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NOTES TO THE FINANCIAL STATEMENTS
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7 RIGHT-OF-USE ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Carrying amounts of ROU asset by class of underlying assets:		
Properties	22,367	-
Equipment	341	-
	<u>22,708</u>	<u>-</u>
Addition to the ROU assets during the financial year	670	-
Depreciation charge of ROU assets by class of underlying assets:		
Properties	(3,230)	-
Equipment	(93)	-
	<u>(3,323)</u>	<u>-</u>

8 INVESTMENTS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Malaysian Government Securities	10,623	50,703
Malaysian government guaranteed bonds	721,110	678,728
Debt securities	678,041	826,543
Equity securities	308,560	271,530
Unit trust and property trust funds	181,918	77,806
Loans	59,632	59,190
Fixed and call deposits	1,093	1,057
	<u>1,960,977</u>	<u>1,965,557</u>
Held-to-maturity financial assets ("HTM")	213,564	259,465
Loans and receivables ("LAR")	60,725	60,247
Available-for-sale financial assets ("AFS")	1,171,021	1,282,706
Fair value through profit and loss financial assets ("FVTPL")	515,667	363,139
	<u>1,960,977</u>	<u>1,965,557</u>
The following investments mature after 12 months:		
HTM	198,438	213,970
LAR	59,631	59,190
AFS	1,056,559	1,077,684
	<u>1,314,628</u>	<u>1,350,844</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

8 INVESTMENTS (CONTINUED)

(a) HTM

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Amortised cost</u>		
Unquoted in Malaysia		
Malaysian government guaranteed bonds	10,014	10,016
Debt securities	200,100	245,574
Accrued interest	3,450	3,875
	<u>213,564</u>	<u>259,465</u>
<u>Fair value</u>		
Unquoted in Malaysia		
Malaysian government guaranteed bonds	10,366	9,808
Debt securities	212,060	249,573
Accrued interest	3,450	3,875
	<u>225,876</u>	<u>263,256</u>

(b) LAR

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Amortised cost</u>		
Fixed and call deposits	1,093	1,057
Policy loans	44,965	45,600
Accrued interest	14,667	13,590
	<u>60,725</u>	<u>60,247</u>
<u>Fair value</u>		
Fixed and call deposits	1,093	1,057
Policy loans	44,965	45,600
Accrued interest	14,667	13,590
	<u>60,725</u>	<u>60,247</u>

Fixed and call deposits of the Company have an average maturity of 21 days (2018: 22 days). The interest rate per annum of fixed deposits, that was effective as at the end of the reporting year was 3.11% per annum (2018: 3.25% per annum).

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NOTES TO THE FINANCIAL STATEMENTS
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8 INVESTMENTS (CONTINUED)

(c) AFS

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Fair value</u>		
Unquoted in Malaysia		
Equity securities	3,719	2,954
Debt securities	441,666	554,557
Malaysian Government Securities	10,624	50,347
Malaysian government guaranteed bonds	703,898	661,584
Accrued interest	11,114	13,264
	<u>1,171,021</u>	<u>1,282,706</u>

(d) FVTPL

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Fair value</u>		
Quoted in Malaysia		
Held-for-Trading		
Equity securities	172,758	183,863
Unit trust and property trust funds	126,357	77,807
By designation		
Equity securities	132,083	84,714
Unit trust and property trust funds	55,561	-
Unquoted in Malaysia		
By designation		
Debt securities	28,562	16,551
Accrued interest	346	204
	<u>515,667</u>	<u>363,139</u>

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NOTES TO THE FINANCIAL STATEMENTS
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8 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 2019	259,465	1,282,706	363,139	1,905,310
Purchases	-	45,244	486,225	531,469
Maturities/disposals/ Proceeds	(45,100)	(225,284)	(410,744)	(681,128)
Realised (losses)/gains	(6)	1,170	14,781	15,945
Fair value gains recorded in:				
Statement of income	-	-	62,124	62,124
Other comprehensive income	-	69,047	-	69,047
(Amortisation of premium)/ accretion of discount	(370)	288	-	(82)
Movement of investment income accrued	(425)	(2,150)	142	(2,433)
At 31 December 2019	<u>213,564</u>	<u>1,171,021</u>	<u>515,667</u>	<u>1,900,252</u>
At 1 January 2018	296,435	1,277,285	478,712	2,052,432
Purchases	-	136,037	397,644	533,681
Maturities/disposals/ Proceeds	(45,000)	(140,594)	(460,077)	(645,671)
Realised gains/(losses)	(895)	75	(20,759)	(21,579)
Fair value gains/(losses) recorded in:				
Statement of income	-	-	(32,361)	(32,361)
Other comprehensive income	-	10,186	-	10,186
Movement in impairment allowance	9,626	-	-	9,626
(Amortisation of premium)/ accretion of discount	(660)	314	-	(346)
Movement of investment income accrued	(41)	(597)	(20)	(658)
At 31 December 2018	<u>259,465</u>	<u>1,282,706</u>	<u>363,139</u>	<u>1,905,310</u>

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NOTES TO THE FINANCIAL STATEMENTS
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8 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 2019</u>				
Financial assets at FVTPL				
Quoted in Malaysia				
Equity securities	304,841	-	-	304,841
Unit trust and property trust funds	181,918	-	-	181,918
Unquoted in Malaysia				
Debt securities	-	28,908	-	28,908
AFS				
Unquoted in Malaysia				
Equity securities	-	-	3,719	3,719
Debt securities	-	432,032	9,634	441,666
Malaysia Government Securities	-	10,624	-	10,624
Malaysia government guaranteed bonds	-	703,898	-	703,898
Accrued interest	-	11,114	-	11,114
Total assets	<u>486,759</u>	<u>1,186,576</u>	<u>13,353</u>	<u>1,686,688</u>
<u>31 December 2018</u>				
Financial assets at FVTPL				
Quoted in Malaysia				
Equity securities	268,577	-	-	268,577
Unit trust and property trust funds	77,807	-	-	77,807
Unquoted in Malaysia				
Debt securities	-	16,755	-	16,755
AFS				
Unquoted in Malaysia				
Equity securities	-	-	2,954	2,954
Debt securities	-	545,764	8,793	554,557
Malaysia Government Securities	-	50,347	-	50,347
Malaysia government guaranteed bonds	-	661,584	-	661,584
Accrued interest	-	13,264	-	13,264
Total assets	<u>346,384</u>	<u>1,287,714</u>	<u>11,747</u>	<u>1,645,845</u>

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8 INVESTMENTS (CONTINUED)

(f) Estimation of fair value (continued)

Fair value hierarchy disclosure (continued)

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Level 3</u>		
At 1 January	11,747	10,448
Total gains for the year recognised in statement of income, presented in insurance contract liabilities	1,606	1,299
At 31 December	<u>13,353</u>	<u>11,747</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.

9 REINSURANCE ASSETS

	<u>2019</u> RM'000	<u>2018</u> RM'000
Reinsurance of insurance contracts (Note 14)		
Claims liabilities	4,133	5,703
Insurance contract liabilities	7,414	7,309
	<u>11,547</u>	<u>13,012</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

10 INSURANCE RECEIVABLES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Outstanding premiums including agents, brokers and co-insurers balances	4,490	4,980
Amounts due from reinsurers	4,069	4,601
Allowance for impairment	(6)	(6)
	<u>8,553</u>	<u>9,575</u>
<u>Impairment movement</u>		
At 1 January	(6)	(6)
Charge for the financial year	-	-
At 31 December	<u>(6)</u>	<u>(6)</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 2019 (2018: RM nil).

11 OTHER RECEIVABLES

	<u>2019</u> RM'000	<u>2018</u> RM'000
Income due and accrued	476	217
Receivable from fund managers and brokers	17,951	20,560
Other receivables, deposits and prepayments	1,589	4,147
	<u>20,016</u>	<u>24,924</u>
Receivables after 12 months:	<u>268</u>	<u>343</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 2019 (2018: RM nil).

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12 SHARE CAPITAL

	2019		2018	
	<u>Number of shares</u> 000	<u>Amount</u> RM'000	<u>Number of shares</u> 000	<u>Amount</u> RM'000
Ordinary share Issued and fully paid up: At 1 January/31 December	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>

13 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.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

14 INSURANCE CONTRACT LIABILITIES

	2019			2018		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Benefits and claims liabilities	185,436	(4,133)	181,303	207,905	(5,703)	202,202
Actuarial liabilities	1,308,764	(7,414)	1,301,350	1,411,215	(7,309)	1,403,906
Unallocated surplus	(1,830)	-	(1,830)	16,581	-	16,581
Available-for-sale fair value reserves	39,779	-	39,779	4,713	-	4,713
Asset revaluation reserves	140	-	140	209	-	209
Net asset value attributable to unit holders	<u>215,751</u>	<u>-</u>	<u>215,751</u>	<u>166,157</u>	<u>-</u>	<u>166,157</u>
	<u>1,748,040</u>	<u>(11,547)</u>	<u>1,736,493</u>	<u>1,806,780</u>	<u>(13,012)</u>	<u>1,793,768</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14 **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 2019	1,094,827	711,953	1,806,780	(2,015)	(10,997)	(13,012)	1,793,768
Change in life insurance fund contract liabilities							
Due to assumptions change							
Mortality/morbidity	1,820	(9,501)	(7,681)	-	-	-	(7,681)
Lapse/withdrawal	1,353	(2,665)	(1,312)	-	-	-	(1,312)
Interest and bonus rate	(3,138)	34,887	31,749	-	-	-	31,749
Others	2,314	5,724	8,038	-	-	-	8,038
Projected cash flow for inforce policies							
Premium	71,791	79,056	150,847	-	-	-	150,847
Investment return	45,162	14,572	59,734	-	-	-	59,734
Benefits	(293,147)	(93,551)	(386,698)	-	-	-	(386,698)
Expenses/commission	(10,633)	(20,782)	(31,415)	-	-	-	(31,415)
Variance on inforce policies	23,409	8,233	31,642	-	-	-	31,642
New business reserves	(103)	816	713	-	-	-	713
Others	24,433	17,499	41,932	11	(116)	(105)	41,827
Benefits and claims experience variation	(24,010)	1,541	(22,469)	1,840	(270)	1,570	(20,899)
Net asset value attributable to unit holders	-	49,594	49,594	-	-	-	49,594
Available-for-sale fair value reserves	36,865	-	36,865	-	-	-	36,865
Assets revaluation reserves	(69)	-	(69)	-	-	-	(69)
Unallocated surplus	(18,411)	-	(18,411)	-	-	-	(18,411)
Deferred tax effects:							
Available-for-sale fair value reserves	(1,799)	-	(1,799)	-	-	-	(1,799)
At 31 December 2019	<u>950,664</u>	<u>797,376</u>	<u>1,748,040</u>	<u>(164)</u>	<u>(11,383)</u>	<u>(11,547)</u>	<u>1,736,493</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14 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 2018	1,065,376	743,387	1,808,763	(2,026)	(14,019)	(16,045)	1,792,718
Change in life insurance fund contract liabilities							
Due to assumptions change							
Expenses	15,070	(9,696)	5,374	-	-	-	5,374
Mortality/morbidity	(1,843)	(5,168)	(7,011)	-	-	-	(7,011)
Lapse/withdrawal	(16,224)	4,246	(11,978)	-	-	-	(11,978)
Interest and bonus rate	(20,809)	(4,847)	(25,656)	-	-	-	(25,656)
Others	(623)	(4,508)	(5,131)	-	-	-	(5,131)
Projected cash flow for inforce policies							
Premium	91,188	86,228	177,416	-	-	-	177,416
Investment return	42,585	15,863	58,448	-	-	-	58,448
Benefits	(110,952)	(88,062)	(199,014)	-	-	-	(199,014)
Expenses/commission	(12,982)	(23,804)	(36,786)	-	-	-	(36,786)
Variance on inforce policies	21,376	8,076	29,452	-	-	-	29,452
New business reserves	324	8,925	9,249	-	-	-	9,249
Others	6,338	6,521	12,859	97	1,335	1,432	14,291
Benefits and claims experience variation	10,177	(444)	9,733	(86)	1,687	1,601	11,334
Net asset value attributable to unit holders	-	(24,764)	(24,764)	-	-	-	(24,764)
Available-for-sale fair value reserves	6,251	-	6,251	-	-	-	6,251
Assets revaluation reserves	(3,543)	-	(3,543)	-	-	-	(3,543)
Unallocated surplus	3,618	-	3,618	-	-	-	3,618
Deferred tax effects:							
Available-for-sale fair value reserves	(500)	-	(500)	-	-	-	(500)
At 31 December 2018	<u>1,094,827</u>	<u>711,953</u>	<u>1,806,780</u>	<u>(2,015)</u>	<u>(10,997)</u>	<u>(13,012)</u>	<u>1,793,768</u>

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15 DEFERRED TAX LIABILITIES

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
At 1 January	33,815	36,225
Recognised in:		
Statement of income (Note 26)	(9,252)	(3,705)
Other comprehensive income		
Deferred tax on AFS	10,916	1,506
Deferred tax on assets revaluation reserves	-	(211)
At 31 December	<u>35,479</u>	<u>33,815</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>2019</u>	<u>2018</u>
	RM'000	RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	(655)	(2,621)
Deferred tax liabilities	36,134	36,436
	<u>35,479</u>	<u>33,815</u>
Current	189	307
Non current	<u>35,290</u>	<u>33,508</u>
	<u>35,479</u>	<u>33,815</u>

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15 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>	Total <u>RM'000</u>
<u>Deferred tax assets</u>					
At 1 January 2018	(2,151)	(76)	(28)	(366)	(2,621)
Recognised in:					
Statement of income	(630)	-	27	85	(518)
Other comprehensive income	518	-	-	-	518
At 31 December 2018	<u>(2,263)</u>	<u>(76)</u>	<u>(1)</u>	<u>(281)</u>	<u>(2,621)</u>
Recognised in:					
Statement of income	1,923	76	(193)	143	1,949
Other comprehensive income	17	-	-	-	17
At 31 December 2019	<u>(323)</u>	<u>-</u>	<u>(194)</u>	<u>(138)</u>	<u>(655)</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

15 DEFERRED TAX LIABILITIES (CONTINUED)

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

	<u>Fair value of investment assets</u> RM'000	<u>Loan and receivable</u> RM'000	<u>Fair value of investment properties</u> RM'000	<u>Accelerated capital allowance on properties and equipment</u> RM'000	<u>Accretion of discounts on investment</u> RM'000	<u>Unallocated surplus</u> RM'000	<u>Total</u> RM'000
<u>Deferred tax liabilities</u>							
At 1 January 2018	2,684	-	419	785	363	34,595	38,846
Recognised in:							
Statement of income	(1,167)	-	(51)	(371)	60	(1,658)	(3,187)
Other comprehensive income	988	-	(211)	-	-	-	777
At 31 December 2018	<u>2,505</u>	<u>-</u>	<u>157</u>	<u>414</u>	<u>423</u>	<u>32,937</u>	<u>36,436</u>
Recognised in:							
Statement of income	2,664	(77)	(17)	(180)	(95)	(13,496)	(11,201)
Other comprehensive income	10,899	-	-	-	-	-	10,899
At 31 December 2019	<u><u>16,068</u></u>	<u><u>(77)</u></u>	<u><u>140</u></u>	<u><u>234</u></u>	<u><u>328</u></u>	<u><u>19,441</u></u>	<u><u>36,134</u></u>

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16 INSURANCE PAYABLES

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
Amount due to insureds	47,415	38,251
Amount owing to client and intermediaries	998	3,464
Amount owing to reinsurers and cedants	5,581	10,943
	<u>53,994</u>	<u>52,658</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 2019 (2018: RM nil).

17 OTHER PAYABLES

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
Accrued expenses	5,723	10,366
Provision for bonus	10,961	8,912
Unclaimed monies	9,905	14,327
Payable to investment brokers	59	986
Agency related expenses accrued	4,164	1,486
Marketing related expenses accrued	971	1,718
Provision for policy settlement	-	1,225
Other payables and accruals	6,083	6,970
Director related expenses accrued	190	220
	<u>38,056</u>	<u>46,210</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 2019 (2018: RM nil).

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18 OPERATING REVENUE

	<u>2019</u> RM'000	<u>2018</u> RM'000
Gross premiums (Note 19)	235,163	282,367
Investment income (Note 20)	93,846	99,279
	<u>329,009</u>	<u>381,646</u>

19 NET PREMIUMS

	<u>2019</u> RM'000	<u>2018</u> RM'000
(a) Gross premiums: Insurance contracts	235,163	282,367
(b) Premiums ceded to reinsurers: Insurance contracts	(9,963)	(12,772)
Net premiums	<u>225,200</u>	<u>269,595</u>

20 INVESTMENT INCOME

	<u>2019</u> RM'000	<u>2018</u> RM'000
Rental income from investment properties	278	267
FVTPL financial assets - held for trading purposes:		
Interest	1,137	1,118
Dividend/distribution income		
Equity securities quoted in Malaysia	9,083	10,360
Equity securities quoted outside Malaysia	-	144
Equity securities unquoted in Malaysia	3,901	2,522
HTM financial assets:		
Interest	12,332	16,282
Accretion of discounts net of amortisation of premiums	(370)	(660)
AFS financial assets:		
Interest	57,006	60,249
Accretion of discounts net of amortisation of premiums	291	314
LAR:		
Interest from loan	4,278	3,406
Interest from fixed and called deposits	5,910	5,277
	<u>93,846</u>	<u>99,279</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

21 REALISED GAINS/(LOSSES)

	<u>2019</u> RM'000	<u>2018</u> RM'000
Properties and equipment	<u>3</u>	<u>(287)</u>
Financial assets at FVTPL - held for trading purposes:		
Equity securities and unit trusts quoted in Malaysia	14,289	(8,035)
Equity securities and unit trusts quoted outside Malaysia	-	(12,804)
Debt securities	492	80
HTM financial assets:		
Debt securities unquoted in Malaysia	(6)	(895)
AFS financial assets:		
Debt securities	1,170	75
	<u>15,945</u>	<u>(21,579)</u>
Total realised gains	<u>15,948</u>	<u>(21,866)</u>

22 FAIR VALUE GAINS/ (LOSSES)

	<u>2019</u> RM'000	<u>2018</u> RM'000
Investment property (Note 4)	(150)	61
FVTPL investments – held for trading purposes	16,848	(33,650)
FVTPL investments – designated		
Quoted in Malaysia		
Unit trust and property trust funds	645	(194)
Quoted outside Malaysia		
Equity securities	234	(1,617)
Unquoted in Malaysia		
Debt securities	36,314	(586)
Unquoted outside Malaysia		
Unit trust and property trust funds	8,084	3,686
Write-back of impairment HTM debt securities	-	9,626
	<u>61,975</u>	<u>(22,674)</u>

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23 OTHER OPERATING INCOME

	<u>2019</u> RM'000	<u>2018</u> RM'000
Policyholder administration and investment management services	2,022	2,646
Other income	294	4,832
	<u>2,316</u>	<u>7,478</u>

24 NET INSURANCE BENEFITS AND CLAIMS

	<u>2019</u> RM'000	<u>2018</u> RM'000
(a) Gross benefits and claims:		
Insurance contracts		
• Death	(27,258)	(20,875)
• Maturity	(249,370)	(50,995)
• Surrender	(55,967)	(66,718)
• Others	(77,948)	(73,911)
	<u>(410,543)</u>	<u>(212,499)</u>
(b) Claims ceded to reinsurers:		
Insurance contracts	<u>8,617</u>	<u>3,342</u>
(c) Gross change in contract liabilities:		
Insurance contracts	<u>71,478</u>	<u>18,220</u>
(d) Change in contract liabilities ceded to reinsurers:		
Insurance contracts	<u>(105)</u>	<u>(1,432)</u>

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25 MANAGEMENT EXPENSES

	<u>Note</u>	<u>2019</u> RM'000	<u>2018</u> RM'000
Employee benefits expense	25 (a)	67,937	67,172
Directors' remuneration:			
- current year	25 (d)	642	553
Auditors' remuneration:			
- statutory audit services		279	438
Depreciation of properties and equipment		3,560	3,914
Depreciation of right-of-use assets		3,323	-
Amortisation of intangible assets		4,017	3,585
Amortisation of prepaid lease property		3	4
Training expenses		566	711
Printing and stationery		335	668
Postage, telephone and telefax		1,418	1,897
EDP expenses		5,584	5,849
Rental of office from third parties		-	2,257
Investment expenses		5,638	5,515
Administration and general expenses		25,308	39,146
		<u>118,610</u>	<u>131,709</u>
 (a) Employee benefits expense			
Wages, salaries and bonuses		54,754	54,103
Contributions to social security ("SOCSO")		300	325
Contributions to EPF		7,576	7,244
Share based payment		916	761
Other benefits		4,391	4,739
Total employee benefits expenses		<u>67,937</u>	<u>67,172</u>

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM 4,096,000 (2018: RM 3,699,000) as disclosed in Note 25(b) to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
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25 **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>2019</u> RM'000	<u>2018</u> RM'000
Salary	1,536	1,477
Bonus	1,908	1,613
Benefits-in-kind	35	86
Retirement benefit	173	172
Others	444	351
	<u>4,096</u>	<u>3,699</u>

(c) Compensation of key management personnel

The compensation of the key management personnel excluding the Chief Executive Officer as disclosed in Note 25(b) to the financial statements is as follows:

	<u>2019</u> RM'000	<u>2018</u> RM'000
Short term employee benefits	6,821	7,084
Defined contribution plan	732	768
	<u>7,553</u>	<u>7,852</u>

(d) Directors' remuneration

	<u>2019</u> RM'000	<u>2018</u> RM'000
<u>Director fees</u>		
Dato' Haji Kamil Khalid Ariff	156	125
Dato' Danapalan A/L T.P. Vinggrasalam	128	110
Ramesh Pillai	116	100
Oh Teik Tatt	128	110
	<u>528</u>	<u>445</u>
<u>Director allowances</u>		
Dato' Haji Kamil Khalid Ariff	30	28
Dato' Danapalan A/L T.P. Vinggrasalam	28	27
Ramesh Pillai	28	26
Oh Teik Tatt	28	27
	<u>114</u>	<u>108</u>
	<u>642</u>	<u>553</u>

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NOTES TO THE FINANCIAL STATEMENTS
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26 TAXATION

	Life fund	Shareholders' fund	Total
	RM'000	RM'000	RM'000
2019			
Current tax	6,023	592	6,615
Deferred tax (Note 15)	4,314	(13,566)	(9,252)
Tax (benefit)/expense	<u>10,337</u>	<u>(12,974)</u>	<u>(2,637)</u>
Current tax			
Current financial year	6,023	930	6,953
Over provision in prior financial years	-	(338)	(338)
	<u>6,023</u>	<u>592</u>	<u>6,615</u>
Deferred tax			
Origination and reversal of temporary differences	4,314	(13,566)	(9,252)
	<u>10,337</u>	<u>(12,974)</u>	<u>(2,637)</u>
2018			
Current tax	7,445	908	8,353
Deferred tax (Note 15)	(2,058)	(1,645)	(3,703)
Tax (benefit)/expense	<u>5,387</u>	<u>(737)</u>	<u>4,650</u>
Current tax			
Current financial year	7,445	1,065	8,510
Over provision in prior financial years	-	(157)	(157)
	<u>7,445</u>	<u>908</u>	<u>8,353</u>
Deferred tax			
Origination and reversal of temporary differences	(2,058)	(1,645)	(3,703)
	<u>5,387</u>	<u>(737)</u>	<u>(4,650)</u>

Domestic income tax for shareholders' fund is calculated at the Malaysian statutory rate of 24% (2018: 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%.

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26 TAXATION (CONTINUED)

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>2019</u> RM'000	<u>2018</u> RM'000
Loss before taxation	(64,067)	(8,281)
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	(15,376)	(1,987)
Effect of difference in tax rate	5,520	2,318
Income not subject to tax	(773)	(569)
Expenses not deductible for tax purpose	2,442	2,833
Tax impact on investment income attributable to policyholders and unit holders	5,888	2,212
	<u>(2,299)</u>	<u>4,807</u>
Overprovision of tax in prior financial years	(338)	(157)
Tax (benefit)/expense for the financial year	<u>(2,637)</u>	<u>4,650</u>

27 LOSS PER SHARE

The basic earnings per share are calculated based on the loss for the financial year after taxation as stated below divided by the number of 125,000,000 (2018: 125,000,000) ordinary shares in issue during the financial year.

	<u>2019</u> RM'000	<u>2018</u> RM'000
Loss for the financial year	<u>(61,430)</u>	<u>(12,931)</u>

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28 CASH FLOWS

	<u>2019</u>	<u>2018</u>
	RM'000	RM'000
Loss for the financial year	(61,430)	(12,931)
Tax (benefit)/expense	(2,637)	4,650
Investment income	(93,846)	(99,279)
Realised (gains)/losses recorded in statement of income:		
- Properties and equipment	(3)	287
- Investment assets	(15,945)	21,579
Fair value losses /(gains) recorded in statement of income:		
- Investment property	150	(61)
- Investment assets	(62,125)	32,361
Purchases of FVTPL financial assets	(486,225)	(397,644)
Maturity/proceeds from sale of FVTPL financial assets	410,744	460,077
Purchases of AFS financial assets	(45,244)	(136,037)
Maturity/proceeds from sale of AFS financial assets	225,284	140,594
Maturity of HTM financial assets	45,100	45,000
Decrease in LAR	600	1,020
Non-cash items:		
Depreciation of properties and equipment	3,560	3,914
Depreciation of right-of-use assets	3,323	-
Amortisation of intangible assets	4,017	3,585
Impairment write-back of HTM financial assets	-	(9,626)
Amortisation of prepaid lease property	3	4
Reversal of depreciation for buildings	(81)	(65)
Changes in working capital:		
Decrease in reinsurance assets	1,465	2,589
Decrease/(increase) in insurance receivables	1,022	(1,605)
Decrease/(increase) in other receivables	76,178	(1,494)
Decrease in insurance contract liabilities	(121,895)	(6,451)
Increase/(decrease) in insurance payables	1,336	(9,710)
Decrease in other payables	(50,947)	(204)
Cash used in/(generated from) operating activities	<u>(167,596)</u>	<u>40,553</u>

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29 CAPITAL COMMITMENTS

As of 31 December 2019, capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	<u>2019</u> RM'000	<u>2018</u> RM'000
Authorised and contracted but not provided for:		
Computer hardware and software	7,088	404
Properties and equipment	224	194
	<u>7,312</u>	<u>598</u>
Approved and not contracted for:		
Computer hardware and software	-	2,871
Properties and equipment	8	-
	<u>8</u>	<u>2,871</u>

30 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2019, as prescribed under the RBC Framework is provided below:-

	<u>2019</u> RM'000	<u>2018</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	279,231	381,004
	<u>404,231</u>	<u>506,004</u>
<u>Tier 2 Capital</u>		
Eligible Tier 2 Capital	71,261	7,850
Amount deducted from Capital	(12,792)	(18,565)
	<u>58,469</u>	<u>(10,715)</u>
Total Capital Available	<u>462,700</u>	<u>495,289</u>

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31 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
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.

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31 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>2019</u> RM'000	<u>2018</u> RM'000
Included in cash and cash equivalents and investment:	8		
Bank balances, fixed and call deposits placed with			
• BSN		40,432	56,662
Interest income receivable from			
• BSN		<u>74</u>	<u>30</u>
Included in other receivables:	11		
Outstanding general and administrative expenses due from			
• BSN		<u>312</u>	<u>-</u>
Included in other payables:	17		
Outstanding general and administrative expenses due to			
• BSN		(2,179)	(2,857)
• PFI		<u>(2,160)</u>	<u>(3,177)</u>

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31 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>2019</u> RM'000	<u>2018</u> RM'000
Commission expenses paid/payable to:		
• BSN	(3,815)	(6,037)
Interest income received/receivable from:		
• BSN	1,541	1,051
General and administrative expenses paid/payable to:		
• PFI	(1,805)	(3,070)
• BSN	(6,344)	(6,268)

32 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 objectives and risk appetite.

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.

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32 **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 minimize and reduce 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.

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32 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 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.

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32 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 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.

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32 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 2019</u>							
Whole Life	274,111	83,222	357,333	-	-	-	357,333
Endowment	470,672	160,387	631,059	-	-	-	631,059
Term – Mortgage	-	191,297	191,297	-	-	-	191,297
Term – Others	67	18,576	18,643	-	-	-	18,643
Riders	249	30,705	30,954	-	-	-	30,954
Other Provision	7,626	71,852	79,478	(107)	(7,307)	(7,414)	72,064
Total insurance contract liabilities	<u>752,725</u>	<u>556,039</u>	<u>1,308,764</u>	<u>(107)</u>	<u>(7,307)</u>	<u>(7,414)</u>	<u>1,301,350</u>
<u>31 December 2018</u>							
Whole Life	256,251	70,761	327,012	-	-	-	327,012
Endowment	624,424	167,910	792,334	-	-	-	792,334
Term - Mortgage	-	189,458	189,458	-	-	-	189,458
Term - Others	42	25,157	25,199	-	-	-	25,199
Riders	(78)	14,113	14,035	-	-	-	14,035
Other Provision	8,824	54,353	63,177	(118)	(7,191)	(7,309)	55,868
Total insurance contract liabilities	<u>889,463</u>	<u>521,752</u>	<u>1,411,215</u>	<u>(118)</u>	<u>(7,191)</u>	<u>(7,309)</u>	<u>1,403,906</u>

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32 **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 judgement 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. 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.

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32 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 2019</u>			
Mortality/morbidity	+25%	59,211	59,211
Expenses	+25%	33,250	33,250
Lapse and surrender rates	+25%	(3,281)	(3,281)
Discount rate	-1%	74,735	74,735
<u>31 December 2018</u>			
Mortality/morbidity	+25%	54,909	54,909
Expenses	+25%	38,717	38,717
Lapse and surrender rates	+25%	3,655	3,655
Discount rate	-1%	88,536	88,536

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

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32 **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.

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32 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 2019</u>			
HTM financial assets:			
Malaysian government guaranteed bonds	10,014	-	10,014
Debt securities	200,100	-	200,100
Accrued interest	3,450	-	3,450
LAR:			
Loans	44,965	-	44,965
Fixed and call deposits	1,093	-	1,093
Accrued interest	14,667	-	14,667
AFS financial assets:			
Equity securities	3,719	-	3,719
Debt securities	441,666	-	441,666
Malaysian Government Securities	10,624	-	10,624
Malaysian government guaranteed bonds	703,898	-	703,898
Accrued interest	11,114	-	11,114
FVTPL financial assets:			
Equity securities	172,758	132,083	304,841
Debt securities	-	28,562	28,562
Unit trust and property trust funds	126,357	55,561	181,918
Accrued interest	-	346	346
Reinsurance assets	11,547	-	11,547
Insurance receivables	8,553	-	8,553
Other receivables	12,014	8,002	20,016
Cash and cash equivalents	160,573	1,417	161,990
	<u>1,937,112</u>	<u>225,971</u>	<u>2,163,083</u>

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32 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 2018</u>			
HTM financial assets:			
Malaysian government guaranteed bonds	10,015	-	10,015
Debt securities	245,575	-	245,575
Accrued interest	3,875	-	3,875
LAR:			
Loans	45,600	-	45,600
Fixed and call deposits	1,057	-	1,057
Accrued interest	13,590	-	13,590
AFS financial assets:			
Equity securities	2,954	-	2,954
Debt securities	554,557	-	554,557
Malaysian Government Securities	50,347	-	50,347
Malaysian government guaranteed bonds	661,584	-	661,584
Accrued interest	13,264	-	13,264
FVTPL financial assets:			
Equity securities	183,863	84,714	268,577
Debt securities	-	16,551	16,551
Unit trust and property trust funds	77,806	-	77,806
Accrued interest	-	205	205
Reinsurance assets	13,012	-	13,012
Insurance receivables	9,575	-	9,575
Other receivables	6,954	17,970	24,924
Cash and cash equivalents	225,049	22,220	247,269
	<u>2,118,677</u>	<u>141,660</u>	<u>2,260,337</u>

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32 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) 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 2019						
HTM financial assets						
Malaysian government guaranteed bonds	-	-	10,014	-	-	10,014
Debt securities	200,100	-	-	-	-	200,100
Accrued interest	3,281	-	169	-	-	3,450
LAR						
Loans	-	-	44,965	-	-	44,965
Fixed and call deposits	1,093	-	-	-	-	1,093
Accrued interest	-	-	14,667	-	-	14,667
AFS financial assets						
Equity securities	-	-	3,719	-	-	3,719
Debt securities	432,032	9,634	-	-	-	441,666
Malaysian Government Securities	-	-	10,624	-	-	10,624
Malaysian government guaranteed bonds	35,299	-	668,599	-	-	703,898
Accrued interest	4,283	-	6,831	-	-	11,114
FVTPL financial assets						
Equity securities	-	-	-	172,758	132,083	304,841
Debt securities	-	-	-	-	28,562	28,562
Unit trust and property trust funds	-	-	-	126,357	55,561	181,918
Accrued interest	-	-	-	-	346	346
Reinsurance assets	4,133	-	7,414	-	-	11,547
Insurance receivables	8,553	-	-	-	-	8,553
Other receivables	11,905	-	109	-	8,002	20,016
Cash and cash equivalents	155,070	-	5,503	-	1,417	161,990
	<u>855,749</u>	<u>9,634</u>	<u>772,614</u>	<u>299,115</u>	<u>225,971</u>	<u>2,163,083</u>

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GIBRALTAR BSN LIFE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 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)	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
31 December 2018						
HTM financial assets						
Malaysian government guaranteed bonds	-	-	10,015	-	-	10,015
Debt securities	245,575	-	-	-	-	245,575
Accrued interest	3,707	-	168	-	-	3,875
LAR						
Loans	-	-	45,600	-	-	45,600
Fixed and call deposits	1,057	-	-	-	-	1,057
Accrued interest	-	-	13,590	-	-	13,590
AFS financial assets						
Equity securities	-	-	2,954	-	-	2,954
Debt securities	545,764	8,793	-	-	-	554,557
Malaysian Government Securities	-	-	50,347	-	-	50,347
Malaysian government guaranteed bonds	38,809	-	622,775	-	-	661,584
Accrued interest	6,206	-	7,058	-	-	13,264
FVTPL financial assets						
Equity securities	-	-	-	183,863	84,714	268,577
Debt securities	-	-	-	-	16,551	16,551
Unit trust and property trust funds	-	-	-	77,806	-	77,806
Accrued interest	-	-	-	-	205	205
Reinsurance assets	5,703	-	7,309	-	-	13,012
Insurance receivables	9,575	-	-	-	-	9,575
Other receivables	6,594	-	360	-	17,970	24,924
Cash and cash equivalents	224,907	-	142	-	22,220	247,269
	<u>1,087,897</u>	<u>8,793</u>	<u>760,318</u>	<u>261,669</u>	<u>141,660</u>	<u>2,260,337</u>

All financial assets of the Company as at 31 December 2019 are neither past due nor impaired.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(f) Financial Risk (continued)

(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. 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").

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 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 2019</u>							
Financial instruments:							
HTM	210,114	21,328	77,896	166,336	-	-	265,560
LAR	46,058	1,093	-	-	44,965	-	46,058
AFS	1,159,907	148,578	327,957	819,977	370,555	3,719	1,670,786
FVTPL	515,321	3,932	6,360	20,658	12,732	486,759	530,441
Accrued interest:							
HTM	3,450	3,450	-	-	-	-	3,450
LAR	14,667	14,667	-	-	-	-	14,667
AFS	11,114	11,114	-	-	-	-	11,114
FVTPL	346	346	-	-	-	-	346
Reinsurance assets	11,547	11,547	-	-	-	-	11,547
Insurance receivables	8,553	8,553	-	-	-	-	8,553
Other receivables	20,016	19,748	268	-	-	-	20,016
Cash and cash equivalents	161,990	161,990	-	-	-	-	161,990
Total assets	2,163,083	406,346	412,481	1,006,971	428,252	490,478	2,744,528

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 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 2019</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Insurance contract liabilities	1,748,040	424,844	507,527	673,224	652,695	-	2,258,290
Insurance payables	53,994	33,910	185	14,321	5,578	-	53,994
Lease liability	23,492	2,713	10,696	10,083	-	-	23,492
Other payables	38,056	38,056	-	-	-	-	38,056
	<u>1,863,582</u>	<u>499,523</u>	<u>518,408</u>	<u>697,628</u>	<u>658,273</u>	<u>-</u>	<u>2,373,832</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 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 2018</u>							
Financial instruments:							
HTM	255,591	53,454	87,071	184,868	-	-	325,393
LAR	46,657	1,057	-	-	45,600	-	46,657
AFS	1,269,442	229,267	299,906	842,834	415,374	2,953	1,790,334
FVTPL	362,934	14	57	342	-	261,670	262,083
Accrued interest:							
HTM	3,875	3,875	-	-	-	-	3,875
LAR	13,590	13,590	-	-	-	-	13,590
AFS	13,264	13,264	-	-	-	-	13,264
FVTPL	204	204	-	-	-	-	204
Reinsurance assets	13,012	13,012	-	-	-	-	13,012
Insurance receivables	9,575	9,575	-	-	-	-	9,575
Other receivables	24,924	24,581	343	-	-	-	24,924
Cash and cash equivalents	<u>247,269</u>	<u>247,269</u>	-	-	-	-	<u>247,269</u>
Total assets	<u>2,260,337</u>	<u>609,162</u>	<u>387,377</u>	<u>1,028,044</u>	<u>460,974</u>	<u>264,623</u>	<u>2,750,180</u>
<u>31 December 2018</u>							
Insurance contract liabilities	1,806,780	502,095	401,941	825,357	510,483	-	2,239,876
Insurance payables	52,658	20,821	352	24,914	6,570	-	52,657
Other payables	46,210	46,210	-	-	-	-	46,210
	<u>1,905,648</u>	<u>569,126</u>	<u>402,293</u>	<u>850,271</u>	<u>517,053</u>	-	<u>2,338,743</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 **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;
- (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.

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32 **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 also manages its interest rate risk by calculating the asset and liability durations and monitoring the duration gap and periodic basis.

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 2019</u>		
+50 basis points	(347)	(164,088)
-50 basis points	352	208,678
<u>31 December 2018</u>		
+50 basis points	(488)	(69,252)
-50 basis points	500	68,906

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.

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NOTES TO THE FINANCIAL STATEMENTS
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32 **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 asset class limit 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 2019</u>		RM'000	RM'000
Bursa Malaysia	30%	35,809	53,926
Bursa Malaysia	-30%	(35,809)	(53,926)
 <u>31 December 2018</u>			
Bursa Malaysia	30%	22,073	56,428
Bursa Malaysia	-30%	(22,073)	(56,428)

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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

32 **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 functions continue 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

33 **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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Assets										
Properties and equipment	-	-	13,676	10,204	-	-	-	-	13,676	10,204
Investment property	-	-	5,350	11,000	-	-	-	-	5,350	11,000
Intangible assets	-	-	6,656	6,927	-	-	-	-	6,656	6,927
Prepaid lease property	-	-	224	227	-	-	-	-	224	227
Right of use asset	-	-	22,708	-	-	-	-	-	22,708	-
Investments	202,077	198,539	1,548,696	1,671,489	216,552	101,470	(6,348)	(5,941)	1,960,977	1,965,557
Reinsurance assets	-	-	11,547	13,012	-	-	-	-	11,547	13,012
Insurance receivables	-	-	8,553	9,575	-	-	-	-	8,553	9,575
Other receivables	133,303	176,358	12,014	6,773	7,897	48,506	(133,198)	(206,713)	20,016	24,924
Cash and cash equivalents	3,067	10,032	157,506	215,017	1,417	22,220	-	-	161,990	247,269
Total Assets	338,447	384,929	1,786,930	1,944,224	225,866	172,196	(139,546)	(212,654)	2,211,697	2,288,695
Share capital	125,000	125,000	-	-	-	-	-	-	125,000	125,000
Retained earnings	160,004	221,434	-	-	-	-	-	-	160,004	221,434
AFS fair value reserves	25,409	2,344	-	-	-	-	-	-	25,409	2,344
Asset revaluation reserves	46	46	-	-	-	-	-	-	46	46
Total Equity	310,459	348,824	-	-	-	-	-	-	310,459	348,824
Insurance contract liabilities	-	-	1,532,289	1,640,623	222,099	172,098	(6,348)	(5,941)	1,748,040	1,806,780
Deferred tax liabilities	25,372	33,505	6,419	212	3,688	98	-	-	35,479	33,815
Insurance payables	-	-	53,994	52,658	-	-	-	-	53,994	52,658
Tax payables	193	(166)	1,984	1,603	-	(1,029)	-	-	2,177	408
Other payables	2,423	2,766	168,752	249,128	79	1,029	(133,198)	(206,713)	38,056	46,210
Lease liability	-	-	23,492	-	-	-	-	-	23,492	-
Total Liabilities	27,988	36,105	1,786,930	1,944,224	225,866	172,196	(139,546)	(212,654)	1,901,238	1,939,871
Total Policyholders' Fund and Liabilities	338,447	384,929	1,786,930	1,944,224	225,866	172,196	(139,546)	(212,654)	2,211,697	2,288,695

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GIBRALTAR BSN LIFE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

33 **INSURANCE FUNDS (CONTINUED)**

Statement of Income by Funds
For the financial year ended

	Shareholders' Fund		Life Fund		Investment-Linked Fund		Elimination		Total	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Operating revenue	7,622	8,043	288,475	341,138	32,912	32,465	-	-	329,009	381,646
Gross premium	-	-	206,322	254,494	28,841	27,873	-	-	235,163	282,367
Premium ceded to reinsurers	-	-	(9,963)	(12,772)	-	-	-	-	(9,963)	(12,772)
Net premiums	-	-	196,359	241,722	28,841	27,873	-	-	225,200	269,595
Investment income	7,621	8,043	82,154	86,644	4,071	4,592	-	-	93,846	99,279
Realised gains/(losses)	945	35	5,621	339	10,325	(22,240)	(943)	-	15,948	(21,866)
Fair value (losses)/gains	(588)	115	16,751	(23,939)	45,276	1,290	536	(140)	61,975	(22,674)
Other operating income	(7,256)	(4,032)	9,583	11,335	(11)	175	-	-	2,316	7,478
Other income	722	4,161	114,109	74,379	59,661	(16,183)	(407)	(140)	174,085	62,217
Gross benefits and claims	-	-	(378,507)	(179,776)	(32,036)	(32,723)	-	-	(410,543)	(212,499)
Claims ceded to reinsurers	-	-	8,617	3,342	-	-	-	-	8,617	3,342
Gross change in contract liabilities	-	-	121,073	(6,544)	(50,002)	24,624	407	140	71,478	18,220
Change in contract liabilities to reinsurers	-	-	(105)	(1,432)	-	-	-	-	(105)	(1,432)
Net insurance benefits and claims	-	-	(248,922)	(184,410)	(82,038)	(8,099)	407	140	(330,553)	(192,369)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

33 **INSURANCE FUNDS (CONTINUED)**

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

	Shareholders' Fund		Life Fund		Investment-Linked Fund		Elimination		Total	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fee and commission expenses	(1,505)	(352)	(12,684)	(15,663)	-	-	-	-	(14,189)	(16,015)
Management expenses	(2,395)	(8,749)	(113,261)	(119,128)	(2,954)	(3,832)	-	-	(118,610)	(131,709)
Other expenses	(3,900)	(9,101)	(125,945)	(134,791)	(2,954)	(3,832)	-	-	(132,799)	(147,724)
(Loss)/profit before taxation	(3,178)	(4,940)	(64,399)	(3,100)	3,510	(241)	-	-	(64,067)	(8,281)
Transfer from revenue accounts	(71,226)	(8,728)	71,226	8,728	-	-	-	-	-	-
(Loss)/profit before taxation	(74,404)	(13,668)	6,827	5,628	3,510	(241)	-	-	(64,067)	(11,192)
Tax benefit/(expense)	12,974	737	(6,827)	(5,628)	(3,510)	241	-	-	2,637	(4,650)
Loss for the financial year	(61,430)	(12,931)	-	-	-	-	-	-	(61,430)	(12,931)