

Company No.

197499	U
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SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2015

0738A6/ra

Company No.

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SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

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SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2015.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	<u>104,639</u>

DIVIDENDS

The amounts of dividends paid or declared by the Company since the end of the previous financial year was as follows:

In respect of the financial year ended 31 December 2014:

Dividend paid on 18 June 2015:	RM'000
- Single-Tier Final Dividend in respect of the Perpetual Non-Cumulative Preference Shares of 8 sen per share	8,000
- Single-Tier Final Dividend in respect of the Ordinary Shares of 79.34 sen per share	<u>191,999</u>
	<u>199,999</u>

The Directors have not recommended any final dividend to be paid for the financial year under review.

RESERVES AND PROVISIONS

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

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 insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework for Insurers issued by Bank Negara Malaysia.

SHARE CAPITAL

There was no issuance of shares by the Company during the financial year.

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SUN LIFE MALAYSIA ASSURANCE 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 proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of 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 so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the 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 method of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet 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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DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

The Directors who have held office since the date of the last report and at the date of this report and the attendance of the Directors at the Board Meetings held during the financial year are as follows:

	<u>Attendance</u>
Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir (Chairman)	6/6
Encik Pushpanathan A/L S.A. Kanagarayar	6/6
Encik Ooi Say Teng	6/6
Encik Renzo Christopher Viegas	5/6
Dato' Mohd Shukri Bin Hussin	6/6
Encik Ahmad Farouk Bin Mohamed	6/6
Y.A.M Tunku Ali Redhaudin Ibni Tuanku Muhriz	5/6
Encik Jose Isidro Navato Camacho	6/6
Encik Roger David Steel	6/6

In accordance with Article 96 of the Company's Articles of Association, Encik Pushpanathan A/L S.A. Kanagarayar, Encik Ooi Say Teng and Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir shall retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

CORPORATE GOVERNANCE

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under the Financial Services Act, 2013 ("FSA") and Bank Negara Malaysia ("BNM") Guidelines in particular BNM/RH/GL/003-2 on the Prudential Framework of Corporate Governance for Insurers, BNM/RH/GL/003-1 on Minimum Standards for Prudential Management of Insurers (Consolidated) and BNM/RH/GL 018-5 on Fit and Proper Criteria.

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SUN LIFE MALAYSIA ASSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC")

The composition of the AC comprises a majority of Independent Directors of the Company and the attendances of the AC members at the meetings held during the financial year are indicated below:

	<u>Attendance</u>
Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir – Chairman (Independent Non-Executive Director)	6/6
Encik Pushpanathan A/L S.A. Kanagarayar (Independent Non-Executive Director)	6/6
Encik Roger David Steel (Non-Independent Non-Executive Director)	6/6

The duties and responsibilities of the AC are as follows:

Financial Reporting

- (i) Reviews with management and the External Auditor and makes recommendations to the Board of Directors on the approval of:
 - (a) The interim unaudited financial statements including the notes thereto; and
 - (b) The annual audited financial statements including the notes thereto.

External Auditor

- (i) Reviews the independence of the External Auditor, including the requirements relating to such independence in the laws governing the Company and the applicable financial legislative and regulatory requirements;
- (ii) Assesses the performance of the External Auditor and recommends to the Board of Directors ("the Board") the appointment or, if so determined by the AC, the replacement of the External Auditor, subject to the approval of the shareholders;
- (iii) Determines, reviews and approves the services to be performed by the External Auditor and the fees to be paid to the External Auditor for audit, audit-related and other services permitted by law;
- (iv) Reviews with the External Auditor and management the overall scope of the annual audit plan, quality control procedures and the resources that the External Auditor will devote to the audit;
- (v) Reviews with the External Auditor any regulatory investigations that pertain to the External Auditor; and
- (vi) Investigates reasons for any request made by management to dismiss the External Auditor, or any resignation by the External Auditor. The results of the investigation should be disclosed to the Board together with the recommendations on the proposed actions to be taken.

SUN LIFE MALAYSIA ASSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

Internal Control and Audit

- (i) Requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves the procedures;
- (ii) Reviews management's reports on the effectiveness of the Company's disclosure controls and procedures and its internal control over financial reporting; and
- (iii) Reviews with the management and the Head of Internal Audit:
 - (a) The overall scope of the annual internal audit plan, including the extent of coordination and reliance placed on it in the External Auditor's audit plan, and the adequacy of the resources available to the Head of Internal Audit; and
 - (b) The effectiveness of the internal control procedures.

Governance

- (i) Reviews and approves changes to the statements of mandate, responsibility and authority of the Internal Audit;
- (ii) Ensures that the Head of Internal Audit has adequate authority, independence and resources to perform the Internal Audit mandate;
- (iii) Approves the appointment, remuneration, performance evaluation, removal and deployment of the Head of Internal Audit;
- (iv) Ensures that an independent review of the Internal Audit function is conducted as needed;
- (v) Discusses with the External Auditor if necessary, on the impact of the financial and control-related aspects of material transactions that are being proposed by the Company;
- (vi) Reviews and discusses with the External Auditor and Appointed Actuary on such reports and regulatory returns of the Company as may be specified by law;
- (vii) Reviews matters within its mandate that are addressed in the regular examination and similar reports received from regulatory authorities including management's responses and recommendations;
- (viii) Discusses the qualifications for and determines whether a member of the AC is a financial expert and in conjunction with the Remuneration and Nomination Committee ensures the on-going financial literacy of the AC members; and
- (ix) Reviews any related party transactions and conflicts of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

Others

- (i) Performs such other duties and exercises such powers as may, from time to time, be assigned to or vested in the AC by the Board, and such other functions as may be required of an AC by law and regulations.

Remuneration and Nomination Committee ("RNC")

The composition of the RNC comprises Non-Executive Directors and the attendance of the RNC members at the meetings held during the financial year are indicated below:

	<u>Attendance</u>
Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir - Chairman (Independent Non-Executive Director)	3/3
Encik Jose Isidro Navato Camacho (Independent Non-Executive Director)	3/3
Encik Renzo Christopher Viegas (Non-Independent Non-Executive Director)	3/3
Dato' Mohd Shukri Bin Hussin (Non-Independent Non-Executive Director)	3/3
Encik Roger David Steel (Non-Independent Non-Executive Director)	3/3

The duties and responsibilities of the RNC with regards to the nominating role are as follows:

- (i) Establishing minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between Executive Directors, Non-Executive and Independent Directors, and other core competencies required through annual reviews;
- (ii) Recommending and assessing the fitness and propriety of nominees for directorship, the Directors to fill the Board Committees as well as nominees for the position of the Chief Executive Officer and the Company Secretary. This includes assessing the Directors and the Chief Executive Officer as proposed for re-appointment before an application for approval is submitted to Bank Negara Malaysia;
- (iii) Establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer;
- (iv) Recommending to the Board on removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities;
- (v) Ensuring that all Directors undergo appropriate induction programmes and receive continuous training;
- (vi) Overseeing the appointments, management succession planning and performance evaluation of Key Senior Officers and recommending to the Board the removal of Key Senior Officers if they are ineffective, errant and negligent in discharging their responsibilities;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration and Nomination Committee ("RNC") (continued)

The duties and responsibilities of the RNC with regards to the nominating role are as follows:
(continued)

- (vii) To seek the services of such advisors or consultants as it deems necessary to fulfil its responsibilities; and
- (viii) Review the list of Key Responsible Persons, as defined in BNM guidelines, annually and make changes as appropriate.

The duties and responsibilities of the RNC with regards to the remuneration role are as follows:

- (i) Recommending a framework of remuneration for Directors, Chief Executive Officer and Key Senior Officers; and
- (ii) Recommending specific remuneration packages for Directors, Chief Executive Officer and Key Senior Officers.

Risk Management Committee ("RMC")

The composition of the RMC comprises Non-Executive Directors of the Company and the attendance of the RMC members at the meetings held during the financial year are indicated below:

	<u>Attendance</u>
Encik Jose Isidro Navato Camacho - Chairman (Independent Non-Executive Director)	5/5
Dato' Mohd Shukri Bin Hussin (Non-Independent Non-Executive Director)	5/5
Encik Roger David Steel (Non-Independent Non-Executive Director)	5/5

The duties and responsibilities of the RMC are as follows:

Risk Management

- (i) Reviewing and recommending risk management strategies, policies, risk tolerance and risk appetite for the Board's approval;
- (ii) Reviewing at least annually and assessing the adequacy of and compliance with Risk Management Policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
- (iii) Ensuring adequate infrastructure, resources and systems are in place for an effective risk management;
- (iv) Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities;
- (v) Reviewing and assessing on matters as recommended by the Executive Committee, for the Board's approval;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee ("RMC") (continued)

Risk Management (continued)

- (vi) Monitoring the performance of the Enterprise Risk Management Committee ("ERMC"), the Asset and Liability Committee ("ALCO") and the Investment Committee ("IC") within the context of the Company's strategy, risk appetite and charter of the respective Committees;
- (vii) Reviewing and assessing the results of the stress and scenario testings, before endorsing for approval by the Board. In addition, ensuring timely identification and continuous monitoring of suitable corrective action plans by the senior management in addressing the identified risks;
- (viii) Reviewing annually key risk-related issues incorporated into the business plans; and
- (ix) Reviewing management's actions related to the product design through the processes set out in the Risk Management Policies.

Compliance

- (i) Reviewing at least annually and approving changes to policies or programmes that provide for the monitoring of compliance with legal and regulatory requirements, including legislative compliance of management systems;
- (ii) Reviewing at least annually the adequacy of and compliance with the Company's Code of Conduct and enterprise-wide policies for the management and mitigation of compliance risks, including risks associated with money laundering, terrorist financing, market conduct, bribery, corruption and fraud; and
- (iii) Reviewing quarterly compliance reports presented to the RMC with respect to, among other things, compliance trends and themes on an enterprise-wide basis, regulatory reviews and the Company's compliance risks and programmes.

Governance

- (i) Reviewing, at least annually, and approving changes to the statements of mandate, responsibility and authority of the Chief Risk Officer and the Chief Actuary.

Executive Committee ("EC")

The EC comprises an equal number of directors nominated by each of the shareholders (the Nominees), with a maximum of two Nominees from each shareholder. The composition of the EC is as indicated below:

Encik Ahmad Farouk Mohamed
Encik Roger David Steel

SUN LIFE MALAYSIA ASSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Executive Committee ("EC") (continued)

The duties and responsibilities of the EC are as follows:

- (i) Reviewing and recommending for approval of the matters set out in the Shareholders Agreement before being tabled to the RMC and subsequently to the Board for deliberation and approval;
- (ii) Reviewing and recommending for approval of the matters set out in the Shareholders Agreement before being tabled to the Board for deliberation and approval; and
- (iii) Performing such other duties and exercises and such other powers as may, from time to time, be assigned to or vested in the EC by the Board.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements 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 and benefits disclosed in the notes to the financial statements of the Company) 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.

DIRECTORS' INTERESTS IN SHARES, SHARE OPTIONS AND DEBENTURES

The Directors in office at the end of the financial year did not hold shares or have beneficial interests in the shares of the Company or hold shares, options over shares and debentures or have beneficial interests in the shares, options over shares and debentures of its related companies during and at the end of the financial year, other than as shown below:

	<u>No. of options over ordinary shares</u>			
	<u>At</u> <u>1.1.2015</u>	<u>Granted</u>	<u>(Sold)</u>	<u>At</u> <u>31.12.2015</u>
<u>Sun Life Financial Inc.</u>				
Roger David Steel	22,288	-	-	22,288
Ooi Say Teng	2,626	2,364	(353)	4,637

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SUN LIFE MALAYSIA ASSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

HOLDING COMPANIES

The Directors regard Renggis Ventures Sdn Bhd as the immediate holding company, Avicennia Capital Sdn Bhd as the penultimate holding company and Khazanah Nasional Berhad as the ultimate holding company. Avicennia Capital Sdn Bhd is also a financial holding company. All companies are incorporated in Malaysia.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with their resolution.

DATUK DR. SYED MUHAMAD BIN
SYED ABDUL KADIR
CHAIRMAN

OOI SAY TENG
DIRECTOR

Kuala Lumpur
24 February 2016

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SUN LIFE MALAYSIA ASSURANCE BERHAD
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STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Datuk Dr. Syed Muhamad Bin Syed Abdul Kadir and Ooi Say Teng, being two of the Directors of Sun Life Malaysia Assurance Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 14 to 92 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2015 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, International Financial Reporting Standards and the requirements of the Companies Act, 1965, in Malaysia.

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

DATUK DR. SYED MUHAMAD BIN
SYED ABDUL KADIR
CHAIRMAN

OOI SAY TENG
DIRECTOR

Kuala Lumpur
24 February 2016

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

I, Chew Chin Lim, being the Officer primarily responsible for the financial management of Sun Life Malaysia Assurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 92 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.

CHEW CHIN LIM

Subscribed and solemnly declared by the abovenamed Chew Chin Lim at Kuala Lumpur in Malaysia on 24 February 2016, before me.

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 197499 U)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Sun Life Malaysia Assurance Berhad on pages 14 to 92, which comprise the statement of financial position as at 31 December 2015 of the Company, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 33.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF SUN LIFE MALAYSIA ASSURANCE BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 197499 U)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2015 and of its financial performance and cash flows for the financial year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

MANJIT SINGH
(No. 2954/03/17 (J))
Chartered Accountant

Kuala Lumpur
24 February 2016

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SUN LIFE MALAYSIA ASSURANCE BERHAD
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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
ASSETS			
Property and equipment	3	50,258	47,024
Financial assets	4	1,690,021	1,668,327
Loans and receivables	5	100,324	155,102
Reinsurance assets	6	120,221	98,936
Insurance receivables	7	4,854	3,607
Other receivables	8	11,355	14,170
Cash and bank balances		14,691	20,871
TOTAL ASSETS		<u>1,991,724</u>	<u>2,008,037</u>
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	9	342,000	342,000
Share premiums		16,000	16,000
Retained earnings	10	116,507	247,065
Reserves		45,243	10,045
Total equity		<u>519,750</u>	<u>615,110</u>
Insurance contract liabilities	11	1,373,046	1,292,932
Insurance claims liabilities		14,542	12,770
Insurance payables	12	20,134	13,291
Other financial liabilities	13	8,321	12,008
Other payables	14	40,550	31,667
Current tax liabilities		1,564	24,746
Deferred tax liabilities	15	13,817	5,513
Total liabilities		<u>1,471,974</u>	<u>1,392,927</u>
TOTAL EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES		<u>1,991,724</u>	<u>2,008,037</u>

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

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SUN LIFE MALAYSIA ASSURANCE BERHAD
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
Gross premiums		533,517	501,986
Premiums ceded to reinsurers		(65,215)	(58,197)
Net premiums		<u>468,302</u>	<u>443,789</u>
Investment income	16	79,213	72,371
Net realised gains	17	-	12
Net fair value gains	18	-	2,637
Other operating income	19	1,791	12,309
Other income		<u>81,004</u>	<u>87,329</u>
Gross benefits and claims paid		(241,812)	(186,753)
Claims ceded to reinsurers		51,859	40,007
Gross change in contract liabilities		(80,114)	(140,094)
Change in contract liabilities ceded to reinsurers		17,011	15,774
Net claims		<u>(253,056)</u>	<u>(271,066)</u>
Net fair value losses	18	(9,132)	-
Commission expenses		(48,404)	(44,984)
Management expenses	20	(100,869)	(87,577)
Other operating expenses		(602)	(1,235)
Investment expenses		(1,507)	(1,905)
Other expenses		<u>(160,514)</u>	<u>(135,701)</u>
Profit before taxation		135,736	124,351
Tax expense attributable to policyholders and unitholders		(4,525)	(7,426)
Profit before taxation attributable to Shareholders		131,211	116,925
Taxation	21	(31,097)	(33,035)
Tax expense attributable to policyholders and unitholders		4,525	7,426
Tax expense attributable to Shareholders		<u>(26,572)</u>	<u>(25,609)</u>
Net profit and total comprehensive income for the financial year		<u>104,639</u>	<u>91,316</u>
Basic earnings per share (sen)	22	<u>43.24</u>	<u>37.73</u>

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

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SUN LIFE MALAYSIA ASSURANCE BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>Note</u>	<u>Non-Distributable</u>			<u>Distributable</u>	<u>Total</u> RM'000
		<u>Share capital</u> RM'000	<u>Share premium</u> RM'000	<u>Reserves*</u> RM'000	<u>Retained earnings</u> RM'000	
At 1 January 2015		342,000	16,000	10,045	247,065	615,110
Dividends	23	-	-	-	(199,999)	(199,999)
Total comprehensive income for the financial year		-	-	92,394	12,245	104,639
Transfer of surpluses		-	-	(57,196)	57,196	-
At 31 December 2015		<u>342,000</u>	<u>16,000</u>	<u>45,243</u>	<u>116,507</u>	<u>519,750</u>
At 1 January 2014		342,000	16,000	123,226	50,568	531,794
Dividends	23	-	-	-	(8,000)	(8,000)
Total comprehensive income for the financial year		-	-	76,278	15,038	91,316
Transfer of surpluses		-	-	(189,459)	189,459	-
At 31 December 2014		<u>342,000</u>	<u>16,000</u>	<u>10,045</u>	<u>247,065</u>	<u>615,110</u>

* Reserves comprise of unallocated surpluses from all funds other than the Participating Life fund (net of deferred tax). This amount is only distributable upon the annual recommendation by the Appointed Actuary to transfer the Life fund surplus to the Shareholders' fund.

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

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>2015</u> RM'000	<u>2014</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial year	104,639	91,316
Adjustments for:		
Gross change in contract liabilities	80,114	140,094
Change in contract liabilities ceded to reinsurers	(17,011)	(15,774)
Property and equipment		
- depreciation	4,519	2,684
- write off	5	-
- reversal of impairment	-	(2,899)
- gain on disposal	-	(12)
Net fair value losses/(gains) on investments at fair value through profit or loss	9,132	(2,637)
Interest income	(72,031)	(64,725)
Dividend income	(6,590)	(7,040)
Rental income	(592)	(606)
Taxation	31,097	33,035
	<hr/>	<hr/>
Profit from operations before changes in operating assets and liabilities	133,282	173,436
Decrease in loans and receivables	54,789	241,764
Decrease/(increase) in receivables	1,570	(5,761)
(Decrease)/increase in insurance claims liabilities	(2,502)	880
Increase/(decrease) in payables	12,039	(15,053)
Purchase of investments	(629,352)	(1,090,846)
Proceeds from disposal and maturity of investments	598,054	643,463
	<hr/>	<hr/>
	167,880	(52,117)
Investment income received:		
- Dividend	6,674	7,111
- Interest	72,492	59,674
- Rental	592	606
Taxation paid	(46,061)	(7,119)
	<hr/>	<hr/>
Net cash generated from operating activities	201,577	8,155
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SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	<u>2015</u> RM'000	<u>2014</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	-	12
Purchase of property and equipment	(7,758)	(5,032)
Net cash used in investing activities	<u>(7,758)</u>	<u>(5,020)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(199,999)	(8,000)
Net cash used in financing activities	<u>(199,999)</u>	<u>(8,000)</u>
Net decrease in cash and cash equivalents	(6,180)	(4,865)
Cash and cash equivalents at beginning of the financial year	<u>20,871</u>	<u>25,736</u>
Cash and cash equivalents at end of the financial year	<u><u>14,691</u></u>	<u><u>20,871</u></u>
Cash and cash equivalents comprise:		
Cash and bank balances	<u>14,691</u>	<u>20,871</u>

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

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

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SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

1 CORPORATE INFORMATION

The Company is engaged principally in the underwriting of life insurance and investment-linked business. There have been no significant changes in the nature of these activities during the financial year.

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

The registered office and principal place of business of the Company is located at the 11th Floor, No.338, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur Malaysia.

The Directors regard Renggis Ventures Sdn Bhd as the immediate holding company, Avicennia Capital Sdn Bhd as the penultimate holding company and Khazanah Nasional Berhad as the ultimate holding company. Avicennia Capital Sdn Bhd is also a financial holding company. All companies are incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 24 February 2016.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework ("the RBC Framework") as at the date of the statement of financial position.

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

The preparation of financial statements in conformity with the 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 revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates. 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 2.3 to the financial statements.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations that are effective:

The amendments and improvements to published standards and interpretations that have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2015 are as follows:

- Amendments to MFRS 2 "Share based payment" on definition of vesting condition
- Amendments to MFRS 13 "Fair Value measurement" on short-term receivables and payables and portfolio exception
- Amendments to MFRS 124 "Related party disclosures" on the key management personnel

There were no material changes to the Company's accounting policies other than enhanced disclosures to the financial statements.

All other new standards, amendments to published standards and interpretations that are effective for the current financial year are not relevant to the Company.

(b) Standards, amendments to published standards and interpretation to existing standards that are applicable to the Company but not yet effective:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015. None of these are expected to have a significant effect on the financial statements of the Company, except for the following set out below:

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

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

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

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) Standards, amendments to published standards and interpretation to existing standards that are applicable to the Company but not yet effective: (continued)

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

The Company has yet to assess the full impact of MFRS 9 onto the Company's financial statements.

- MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on the Company's assessment, there is no expected material changes to the Company's accounting policies.

2.2 Summary of significant accounting policies

(a) Property and equipment

All items of property and equipment are initially recorded at cost. 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 profit or loss during the financial year in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Property and equipment (continued)

Freehold land is not depreciated as it has an infinite life. Depreciation of other property and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, summarised as follows:

Furniture, fittings and renovation	10 years
Computer equipment	3 years
Office equipment	5 years
Motor vehicles	3 years
Buildings	50 years

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

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

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. Refer to accounting policy Note 2.2(d) on impairment of assets.

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

(b) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL") and loans and other receivables ("LAR").

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

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

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Financial assets (continued)

FVTPL

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

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

The Company classifies assets acquired for the purpose of selling in the short term as held-for-trading or it is part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Investments held by investment-linked-funds are designated at FVTPL at inception as they are managed and evaluated on a fair value basis, in accordance with the respective investment strategy and mandate.

These financial assets are initially recorded at fair value. Subsequent to initial recognition, these financial assets are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in profit or loss. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

LAR

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

(c) 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 on the date of the statement of financial position.

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

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Fair value of financial instruments (continued)

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of Government Investment Issues, Cagamas bonds and unquoted bonds are based on indicative fair market prices/index by reference to quotations provided by banks and rating agencies.

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

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 financial assets.

(d) Impairment

(i) Financial assets

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

Assets carried at amortised cost

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

SUN LIFE MALAYSIA ASSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Impairment (continued)

(i) Financial assets (continued)

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

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

(ii) Non-financial assets

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

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the date of the statement of financial position. The impairment loss is charged to profit or loss 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 profit or loss unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus.

(e) Derecognition of financial assets

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

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Equity instruments

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are classified as equity.

Dividends

Dividends on ordinary shares and preference shares classified as equity instruments are recognised as a liability and deducted from equity when they are declared.

Dividends for the financial year that are declared after the date of the statement of financial position are dealt with as an event after the date of the statement of financial position.

Reserves

Unallocated surpluses from all funds other than the Participating Life fund, where the amounts of surplus are yet to be allocated or distributed to the Shareholders by the end of the financial year, are classified as equity.

(g) Product classification

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

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of 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.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. 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.

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

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

SUN LIFE MALAYSIA ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Product classification (continued)

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

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

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

Surpluses in the DPF fund are distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. The Company however has the discretion over the amount and timing of the distribution of these surpluses to policyholders and shareholders.

Surpluses in the non-DPF fund arising during the year are recognised in the statement of comprehensive income and the unallocated surplus where the amount of surplus allocation to shareholders has yet to be determined by the end of the financial year is held in equity.

Unallocated surpluses of the DPF funds where the amount of surplus allocation to either policyholders or shareholders has yet to be determined by the end of the financial year are held within the insurance contract liabilities.

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

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

SUN LIFE MALAYSIA ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) 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 date of the statement of financial position 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 occurs 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 Company gathers objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost and the impairment loss is calculated following the same method used for these financial assets as set out in Note 2.2(d) to the financial statements. The impairment loss is recorded in profit or loss.

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

(i) Life insurance underwriting results

The surplus transferable from the Life fund to the profit or loss is based on the surplus determined by an annual actuarial valuation of the long-term liabilities to policyholders, made in accordance with the provisions of the Financial Services Act, 2013 and the RBC Framework by the Company's Appointed Actuary. In the event the actuarial valuation indicates that a transfer is required from the Shareholder's fund, the transfer from the profit or loss to the Life fund is made in the financial year of the actuarial valuation.

Gross premiums

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

Gross premiums of the Investment-linked fund includes 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.

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured and it is still within the grace period allowed for payment or covered by the cash surrender value of the policies.

SUN LIFE MALAYSIA ASSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Life insurance underwriting results (continued)

Reinsurance premiums

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

Benefits and claims expenses

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

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

- maturity and other policy benefit payments due on specified dates are treated as benefits payable on the due dates;
- death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered;
- benefits payable under the Investment-linked fund are in respect of net cancellation of units and are recognised as surrenders; and
- bonus on DPF policy upon its declaration.

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

Commission and agency expenses

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

(j) Insurance receivables

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

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that insurance receivables are 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 2.2(d) to the financial statements.

SUN LIFE MALAYSIA ASSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(j) Insurance receivables (continued)

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

(k) Insurance contract liabilities

(i) Actuarial liabilities

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

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed benefits and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and the non-unit liabilities of investment-linked policies. The valuation basis, including the determination of the appropriate risk discount rate, is in accordance with Part D of the RBC Framework and Appendix VII: Valuation Basis for Life Insurance Liabilities of the RBC Framework, and any related Circulars issued by BNM relevant to the guidelines.

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(k) Insurance contract liabilities (continued)

(i) Actuarial liabilities (continued)

Adjustments to the liabilities at each date of the statement of financial position are recorded in the Life fund. Profits originating from margins of adverse deviations on run-off contracts, are recognised in the Life fund over the life of the contract, whereas losses are fully recognised in the Life fund during the first year of run-off.

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

At each date of the statement of financial position, an assessment is made of whether the recognised life insurance liabilities are adequate, net of present value of in-force business ("PVIF") by using an existing liability adequacy test.

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

(ii) Unallocated surplus

Surpluses of contract under the Participating Life fund are attributable to policyholders and shareholders and the amount and timing of distribution to both the policyholders and shareholders are determined by an actuarial valuation of the long term liabilities to policyholders at the date of the statement of financial position and is made in accordance with the provision of the Financial Services Act, 2013 and related regulations by the Company's Appointed Actuary.

Surpluses in the non-DPF fund arising during the financial year are recognised in the statement of comprehensive income and the unallocated surplus and where the amount of surplus allocation to shareholders which has yet to be determined by the end of the financial year is held in equity.

Unallocated surpluses of the DPF funds where the amount of surplus allocation to either policyholders or shareholders has yet to be determined by the end of the financial year are held within the insurance contract liabilities.

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

2.2 Summary of significant accounting policies (continued)

(k) Insurance contract liabilities (continued)

(iii) Net asset value attributable to unit holders

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

(l) Other revenue recognition

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

Interest income

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

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

Rental income

Rental income is recognised on a time proportion basis.

Dividend income

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

Realised gains and losses on investments

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

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

2.2 Summary of significant accounting policies (continued)

(m) Taxation

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred tax is recognised as income or expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in other comprehensive income, in which case the deferred tax is also recognised directly in other comprehensive income.

(n) 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 date of the statement of financial position and adjusted to reflect the current best estimate.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Employee benefits

(i) Short term employee benefits

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

(ii) Post employment benefits

Defined contribution plan

The Company's contributions to the Employees' Provident Fund ("EPF"), the national defined contribution plan, are charged to the profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Share-based payment plan

Certain employees of the Company are granted share-based payment plan as consideration for services rendered.

The share-based payment plan is based on the value of Sun Life Financial Inc.'s ("SLF") common shares. The total liabilities for this plan is computed based on the estimated number of SLF's common shares expected to vest at the end of the vesting period. The liabilities are recomputed at the end of each reporting period and are measured at the fair value of SLF's common shares at the reporting date. The liabilities are accrued and expensed on a straight-line basis over the vesting periods. The liabilities are settled in cash at the end of the vesting period.

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

2.2 Summary of significant accounting policies (continued)

(p) Contingent liabilities and contingent assets

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

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

(q) Other financial liabilities and insurance payables

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

(r) Cash and cash equivalents

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the date of the statement of financial position. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in any future periods. These factors could include:

(a) Critical judgements made in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where 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.

(b) Key sources of estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of actuarial liabilities

The liability for life insurance contracts and investment contracts with DPF is based on current assumptions, reflecting the best estimate at the time of its determination and increased with a margin for risk and adverse deviation.

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

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

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate.

Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

Discount rate for non-participating policies, guaranteed benefits of participating policies and the non-unit liability of investment-linked policies accord a level of guarantee which is no less certain than that accorded by a Malaysian Government Security ("MGS"). In the case of the total benefits liabilities of the 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.

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NOTES TO THE FINANCIAL STATEMENTS
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3 PROPERTY AND EQUIPMENT

	<u>Furniture, fittings and renovation</u> RM'000	<u>Computer equipment</u> RM'000	<u>Office equipment</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Freehold land and buildings</u> RM'000	<u>Work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>							
At 1 January 2014	2,623	21,977	524	1,021	43,520	50	69,715
Additions	39	2,290	73	-	-	2,630	5,032
Write off	(4)	-	-	-	-	-	(4)
At 31 December 2014/ 1 January 2015	2,658	24,267	597	1,021	43,520	2,680	74,743
Additions	117	3,101	105	-	-	4,435	7,758
Write off	-	-	-	-	-	(5)	(5)
Reclassification	600	5,459	393	-	-	(6,452)	-
At 31 December 2015	<u>3,375</u>	<u>32,827</u>	<u>1,095</u>	<u>1,021</u>	<u>43,520</u>	<u>658</u>	<u>82,496</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

3 PROPERTY AND EQUIPMENT (CONTINUED)

	<u>Furniture, fittings and renovation</u> RM'000	<u>Computer equipment</u> RM'000	<u>Office equipment</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Freehold land and buildings</u> RM'000	<u>Work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>Accumulated depreciation</u>							
At 1 January 2014	1,135	19,765	432	671	3,036	-	25,039
Charge for the financial year (note 20)	262	2,005	43	189	185	-	2,684
Write off	(4)	-	-	-	-	-	(4)
At 31 December 2014/ 1 January 2015	1,393	21,770	475	860	3,221	-	27,719
Charge for the financial year (note 20)	360	3,598	168	128	265	-	4,519
Write off	-	-	-	-	-	-	-
At 31 December 2015	<u>1,753</u>	<u>25,368</u>	<u>643</u>	<u>988</u>	<u>3,486</u>	<u>-</u>	<u>32,238</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

3 PROPERTY AND EQUIPMENT (CONTINUED)

	<u>Furniture, fittings and renovation</u> RM'000	<u>Computer equipment</u> RM'000	<u>Office equipment</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Freehold land and buildings</u> RM'000	<u>Work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>Accumulated impairment</u>							
At 1 January 2014	-	-	-	-	2,899	-	2,899
Reversal during the financial year (note 19)	-	-	-	-	(2,899)	-	(2,899)
At 31 December 2014/2015	-	-	-	-	-	-	-
<u>Net carrying amount</u>							
31 December 2014	1,265	2,497	122	161	40,299	2,680	47,024
31 December 2015	1,622	7,459	452	33	40,034	658	50,258

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

4 FINANCIAL ASSETS

	<u>2015</u> RM'000	<u>2014</u> RM'000
Malaysian Government Securities	431,208	393,668
Cagamas bonds	21,709	27,149
Unquoted corporate debt securities	1,023,135	1,100,212
Quoted equity securities	96,675	98,728
Unit trust funds	117,120	25,703
Negotiable instrument of deposits	-	22,693
Unquoted equity securities	174	174
	<u>1,690,021</u>	<u>1,668,327</u>

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Fair value through profit or loss ("FVTPL") – designated upon initial recognition	<u>1,690,021</u>	<u>1,668,327</u>

The following financial assets are expected to be realised after 12 months:

	<u>2015</u> RM'000	<u>2014</u> RM'000
FVTPL – designated upon initial recognition	<u>1,395,796</u>	<u>1,447,931</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

4 FINANCIAL ASSETS (CONTINUED)

	<u>2015</u> RM'000	<u>2014</u> RM'000
(a) FVTPL - designated upon initial recognition		
Malaysian Government Securities	431,208	393,668
Cagamas bonds	21,709	27,149
Unquoted corporate debt securities	1,023,135	1,100,212
Quoted equity securities	96,675	98,728
Unit trust funds	117,120	25,703
Negotiable instrument of deposits	-	22,693
Unquoted equity securities	174	174
	<u>1,690,021</u>	<u>1,668,327</u>
(b) Carrying values of financial assets		<u>FVTPL/Total</u> RM'000
At 1 January 2015		1,668,327
Purchases		629,352
Maturities		(35,876)
Disposals		(562,818)
Fair value losses recorded in:		
Profit or loss (note 18)		(8,492)
Movement in accrued interest		(472)
At 31 December 2015		<u>1,690,021</u>
At 1 January 2014		1,212,878
Purchases		1,090,846
Maturities		(128,473)
Disposals		(524,251)
Fair value gains recorded in:		
Profit or loss (note 18)		11,898
Elimination of fair value gains from Shareholders' fund investment in investment-linked funds (note 11)		44
Movement in accrued interest		5,385
At 31 December 2014		<u>1,668,327</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

4 FINANCIAL ASSETS (CONTINUED)

(c) Fair value hierarchy

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

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

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

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

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

The following table presents the Company's financial assets that are carried at fair value as at 31 December 2015:

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>FVTPL</u>				
<u>2015</u>				
Malaysian Government Securities	-	431,208	-	431,208
Cagamas bonds	-	21,709	-	21,709
Unquoted corporate debt securities	-	1,023,135	-	1,023,135
Quoted equity securities	96,675	-	-	96,675
Unit trust funds	117,120	-	-	117,120
Unquoted equity securities	-	-	174	174
	<u>213,795</u>	<u>1,476,052</u>	<u>174</u>	<u>1,690,021</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

4 FINANCIAL ASSETS (CONTINUED)

(c) Fair value hierarchy (continued)

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>FVTPL</u>				
<u>2014</u>				
Malaysian Government Securities	-	393,668	-	393,668
Cagamas bonds	-	27,149	-	27,149
Unquoted corporate debt securities	-	1,100,212	-	1,100,212
Quoted equity securities	98,728	-	-	98,728
Unit trust funds	25,703	-	-	25,703
Negotiable instrument of deposits	-	22,693	-	22,693
Unquoted equity securities	-	-	174	174
	<u>124,431</u>	<u>1,543,722</u>	<u>174</u>	<u>1,668,327</u>

There are no transfers between Level 1 and 2 of the fair value hierarchy during the current financial year. There is also no movement in Level 3 of the fair value hierarchy during the current financial year.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

5 LOANS AND RECEIVABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Policy loans	9,753	9,173
Other secured loans	28	32
	<u>9,781</u>	<u>9,205</u>
Fixed and call deposits with licensed financial institutions	90,543	145,897
	<u>100,324</u>	<u>155,102</u>
Receivable within 12 months	90,543	145,897
Receivable after 12 months	9,781	9,205
	<u>100,324</u>	<u>155,102</u>

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

6 REINSURANCE ASSETS

	<u>2015</u> RM'000	<u>2014</u> RM'000
Reinsurance of insurance contracts		
- insurance claims liabilities	12,899	8,625
- insurance contract liabilities (note 11)	107,322	90,311
	<u>120,221</u>	<u>98,936</u>
Receivable within 12 months	19,630	12,022
Receivable after 12 months	100,591	86,914
	<u>120,221</u>	<u>98,936</u>

7 INSURANCE RECEIVABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Due premiums including agents/brokers and co-insurers balances	<u>4,854</u>	<u>3,607</u>
Receivable within 12 months	<u>4,854</u>	<u>3,607</u>

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Gross amounts of recognised financial assets	7,945	6,095
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position (note 12)	<u>(3,091)</u>	<u>(2,488)</u>
Net amounts of financial assets presented in the statement of financial position	<u>4,854</u>	<u>3,607</u>

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2015 (2014: nil).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

8 OTHER RECEIVABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Amount due from fund manager/brokers	936	7,180
Amount due from related parties	6,029	3,231
Deposits receivable	281	274
Dividend receivable	174	258
Subscription to LIAM shares	2,147	2,147
Other receivables	1,788	1,080
	<u>11,355</u>	<u>14,170</u>
Receivable within 12 months	9,208	12,023
Receivable after 12 months	2,147	2,147
	<u>11,355</u>	<u>14,170</u>

Amount due from related parties are unsecured, interest free and has no fixed repayment terms.

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

9 SHARE CAPITAL

	<u>2015</u>		<u>2014</u>	
	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000
<u>Authorised</u>				
Ordinary shares of RM1 each:				
- At beginning/end of the financial year	250,000	250,000	250,000	250,000
Perpetual non-cumulative preference shares of RM1 each:				
- At beginning/end of the financial year	100,000	100,000	100,000	100,000
	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

9 SHARE CAPITAL (CONTINUED)

	2015		2014	
	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000
<u>Issued and paid up</u>				
Ordinary shares of RM1 each:				
- At beginning/end of the financial year	242,000	242,000	242,000	242,000
Perpetual non-cumulative preference shares of RM1 each:				
- At beginning/end of the financial year	100,000	100,000	100,000	100,000
	<u>342,000</u>	<u>342,000</u>	<u>342,000</u>	<u>342,000</u>

Features of the Perpetual Non-Cumulative Preference Shares ("PPS")

The PPS is a subordinated and unsecured obligation of the Company and shall rank pari passu among themselves and senior only to the Company's ordinary shares. The PPS shall not represent any fixed charge on the earnings of the Company and shall carry no right to vote at any general meeting of the ordinary shareholders of the Company.

The PPS confers on the holder the right to receive a non-cumulative gross dividend of 8% per annum, payable annually in arrears after the anniversary of the issue date of the PPS. The payment of dividend under the PPS is at the Company's discretion.

The PPS is not convertible to ordinary shares of the Company and the tenure of the PPS is perpetual and can only be redeemed after year 2013 at the sole option of the Company subject to Bank Negara Malaysia's approval.

10 RETAINED EARNINGS

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

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 January 2014. Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio 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.

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11 **INSURANCE CONTRACT LIABILITIES**

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

	<u>2015</u>			<u>2014</u>		
	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000
Actuarial liabilities	1,201,428	(107,322)	1,094,106	1,193,056	(90,311)	1,102,745
Unallocated surplus	430	-	430	540	-	540
Net asset value attributable to unitholders	171,188	-	171,188	99,336	-	99,336
	<u>1,373,046</u>	<u>(107,322)</u>	<u>1,265,724</u>	<u>1,292,932</u>	<u>(90,311)</u>	<u>1,202,621</u>
Current	296,517	(6,731)	289,786	206,145	(3,397)	202,748
Non-current	1,076,529	(100,591)	975,938	1,086,787	(86,914)	999,873
	<u>1,373,046</u>	<u>(107,322)</u>	<u>1,265,724</u>	<u>1,292,932</u>	<u>(90,311)</u>	<u>1,202,621</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

11 INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2015	1,292,932	(90,311)	1,202,621
<u>Projected changes of inforce policies</u>			
Premium income	113,116	(52,396)	60,720
Expense and commission	(23,602)	21	(23,581)
Benefits	(191,292)	52,958	(138,334)
Interest on cashflows	37,516	(2,970)	34,546
Others	(12,542)	6,764	(5,778)
Experience variance on inforce policies	(5,777)	292	(5,485)
Reserve for new policies	128,190	(19,485)	108,705
<u>Assumption changes</u>			
Discount rate	(5,241)	547	(4,694)
Mortality	(8,028)	5,947	(2,081)
Lapse rates	(1,682)	1,297	(385)
Policy expenses	(13,176)	-	(13,176)
Others	(190)	-	(190)
Expense reserve	(6,900)	-	(6,900)
Other changes	(2,020)	(9,986)	(12,006)
Movement in unallocated surplus	(110)	-	(110)
Movement in net asset value attributable to unitholders	71,852	-	71,852
At 31 December 2015	<u>1,373,046</u>	<u>(107,322)</u>	<u>1,265,724</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

11 INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2014	1,152,794	(74,537)	1,078,257
<u>Projected changes of inforce policies</u>			
Premium income	104,796	(44,590)	60,206
Expense and commission	(21,387)	23	(21,364)
Benefits	(174,617)	46,443	(128,174)
Interest on cashflows	30,379	(2,154)	28,225
Others	(3,730)	4,925	1,195
Experience variance on inforce policies	(4,141)	39	(4,102)
Reserve for new policies	166,134	(17,403)	148,731
<u>Assumption changes</u>			
Discount rate	2,461	(243)	2,218
Mortality	(6,857)	2,480	(4,377)
Lapse rates	297	(4,625)	(4,328)
Others	(921)	-	(921)
Expense reserve	(100)	-	(100)
Other changes	2,993	(669)	2,324
Movement in unallocated surplus	540	-	540
Movement in net asset value attributable to unitholders	44,247	-	44,247
	140,094	(15,774)	124,320
Elimination of fair value gains from Shareholders' fund investment in investment-linked funds (note 4(b))	44	-	44
At 31 December 2014	<u>1,292,932</u>	<u>(90,311)</u>	<u>1,202,621</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

12 INSURANCE PAYABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Due to agents and intermediaries	3,204	3,880
Due to reinsurers and cedants	16,930	9,411
	<u>20,134</u>	<u>13,291</u>
Payable within 12 months	<u>20,134</u>	<u>13,291</u>

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Gross amounts of recognised financial liabilities	23,225	15,779
Less: Gross amounts of recognised financial assets set off in the statement of financial position (note 7)	(3,091)	(2,488)
Net amounts of financial liabilities presented in the statement of financial position	<u>20,134</u>	<u>13,291</u>

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2015 (2014: nil).

13 OTHER FINANCIAL LIABILITIES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Outstanding purchases of investment securities	467	2,165
Unprocessed proposals	3,705	4,688
Others	4,149	5,155
	<u>8,321</u>	<u>12,008</u>
Payable within 12 months	8,321	11,145
Payable after 12 months	-	863
	<u>8,321</u>	<u>12,008</u>

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

14 OTHER PAYABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Cash in suspense	504	941
Deposits	95	98
Accrual for bonus	19,378	15,341
Accrual for electronic data processing expenses	610	842
Accrual for sales and marketing expenses	9,897	5,035
Accrual for advertising cost	240	792
Accrued expenses	6,965	7,062
Others	2,861	1,556
	<u>40,550</u>	<u>31,667</u>

The carrying amounts disclosed above approximate the fair values as at the date of the statement of financial position and all amounts are payable within one year.

15 DEFERRED TAX LIABILITIES

	<u>2015</u> RM'000	<u>2014</u> RM'000
At January	5,513	28,929
Recognised in:		
Profit or loss (note 21)	8,304	(23,416)
At December	<u>13,817</u>	<u>5,513</u>
Current	155	33
Non-current	13,662	5,480
	<u>13,817</u>	<u>5,513</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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

15 DEFERRED TAX LIABILITIES (CONTINUED)

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Deferred tax liabilities	13,817	5,513
Deferred tax assets	-	-
	<u>13,817</u>	<u>5,513</u>

	<u>Accelerated depreciation</u> RM'000	<u>Revaluation- financial assets</u> RM'000	<u>Provision for expenses</u> RM'000	<u>Reserves</u> RM'000	<u>Total</u> RM'000
<u>Deferred tax liabilities/(assets)</u>					
At 1 January 2014	160	(3,987)	-	32,756	28,929
Recognised in: Profit or loss (note 21)	-	6,505	165	(30,086)	(23,416)
At 31 December 2014/ 1 January 2015	160	2,518	165	2,670	5,513
Recognised in: Profit or loss (note 21)	-	(886)	(165)	9,355	8,304
At 31 December 2015	<u>160</u>	<u>1,632</u>	<u>-</u>	<u>12,025</u>	<u>13,817</u>

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15 DEFERRED TAX LIABILITIES (CONTINUED)

The composition of deferred tax assets/liabilities before and after appropriate offsetting, is as follows:

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Subject to income tax:</u>		
<u>Deferred tax assets</u> (before offsetting)		
Financial assets	-	-
Offsetting	-	-
	<hr/>	<hr/>
Deferred tax assets (after offsetting)	-	-
	<hr/> <hr/>	<hr/> <hr/>
<u>Deferred tax liabilities</u> (before offsetting)		
Property and equipment	160	160
Financial assets	1,632	2,518
Provision for expenses	-	165
Reserves	12,025	2,670
	<hr/>	<hr/>
	13,817	5,513
Offsetting	-	-
	<hr/>	<hr/>
Deferred tax liabilities (after offsetting)	13,817	5,513
	<hr/> <hr/>	<hr/> <hr/>

16 INVESTMENT INCOME

	<u>2015</u> RM'000	<u>2014</u> RM'000
Rental income	592	606
Financial assets at FVTPL - designated upon initial recognition		
Interest income	66,660	55,776
Dividend income		
- equity securities quoted in Malaysia	6,590	7,040
LAR interest income	5,371	8,949
	<hr/>	<hr/>
	79,213	72,371
	<hr/> <hr/>	<hr/> <hr/>

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NOTES TO THE FINANCIAL STATEMENTS
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17 NET REALISED GAINS

	<u>2015</u> RM'000	<u>2014</u> RM'000
Gain on disposal of property and equipment	-	12

18 NET FAIR VALUE (LOSSES)/GAINS

	<u>2015</u> RM'000	<u>2014</u> RM'000
Financial assets at FVTPL - designated upon initial recognition		
Unrealised (losses)/gains (note 4(b))	(8,492)	11,898
<u>Realised (losses)/gains:</u>		
- Malaysian Government Securities	1,110	(9,953)
- Quoted equity securities	(6,273)	(871)
- Unquoted corporate debt securities	3,231	(526)
- Investment-linked funds	1,169	2,089
- Cagamas bonds	123	-
	<u>(9,132)</u>	<u>2,637</u>

19 OTHER OPERATING INCOME

	<u>2015</u> RM'000	<u>2014</u> RM'000
Recoveries from impaired bonds	-	8,306
Reversal of impairment on freehold building (note 3)	-	2,899
Others	1,791	1,104
	<u>1,791</u>	<u>12,309</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

20 MANAGEMENT EXPENSES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Employee benefits expense (note 20(a))	43,061	37,617
Directors' fees and allowance (note 20(b))	976	978
Auditors' remuneration:		
Statutory audit		
- current financial year	334	291
- under accrual in respect of prior financial years	36	47
Non-audit services	8	8
Electronic data processing expenses	3,640	6,584
Sales and marketing expenses	30,684	22,931
Advertising cost	1,397	1,905
Depreciation of property and equipment (note 3)	4,519	2,684
Rental expenses	166	368
Telephone and postage expenses	2,013	1,659
Others	14,035	12,505
	<u>100,869</u>	<u>87,577</u>
 (a) Employee benefits expense		
Salaries and bonus	33,769	29,876
Defined contribution plan	4,532	3,844
Share-based payment plan (note (c))	239	115
Expatriate allowances	770	799
Other staff benefits	3,751	2,983
	<u>43,061</u>	<u>37,617</u>

(b) Directors' remuneration

The details of remuneration received and receivable by Directors during the financial year are as follows:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Executive:		
Salaries and bonus	1,761	1,673
Defined contribution plan	247	251
Benefits-in-kind	33	33
Share-based payment plan	97	120
	<u>2,138</u>	<u>2,077</u>
Non-executive:		
Fees and allowance	976	978
	<u>3,114</u>	<u>3,055</u>

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NOTES TO THE FINANCIAL STATEMENTS
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20 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration (continued)

The details of remuneration received and receivable by Directors during the financial year are as follows: (continued)

	<u>2015</u> RM'000	<u>2014</u> RM'000
Represented by:		
Directors' fees and allowance	976	978
Amount included in employee benefits expense	2,105	2,044
Estimated monetary value of benefits-in-kind	33	33
	<u> </u>	<u> </u>

The Executive Director is the Chief Executive Officer of the Company.

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

	<u>2015</u>	<u>2014</u>
Executive:		
RM100,001 – RM2,500,000	1	1
Non-executive:		
RM80,001 – RM130,000	6	6
RM130,001 – RM180,000	2	2

(c) Share-based payment plan

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Sun Share Unit Plan	<u>239</u>	<u>115</u>

Sun Share Units ("SSU") are granted to certain employees of the Company as part of the annual performance reward cycle and has a vesting period of over 36 months from grant date. Each SSU entitles the recipient to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions. These SSU expenses are paid out in cash at the end of the vesting period.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

21 TAXATION

	<u>2015</u> RM'000	<u>2014</u> RM'000
Tax expense on the profit for the financial year:		
Income tax:		
Current tax	24,284	56,549
Deferred tax (note 15)	8,304	(23,416)
	<u>32,588</u>	<u>33,133</u>
Over provision in prior financial years	(1,491)	(98)
	<u>31,097</u>	<u>33,035</u>

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Profit before taxation attributable to Shareholders	<u>131,211</u>	<u>116,925</u>
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	32,803	29,231
Income not subject to tax	(86)	(1,421)
Expenses not deductible for tax purposes	24	1,759
Section 110B tax credit set off	(4,678)	(3,862)
Over provision in prior financial years	(1,491)	(98)
Tax on investment income attributable to policyholders and unitholders	4,525	7,426
Tax expense for the financial year	<u>31,097</u>	<u>33,035</u>

22 EARNINGS PER SHARE

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

	<u>2015</u>	<u>2014</u>
Profit attributable to ordinary equity holders (RM'000)	104,639	91,316
Weighted average number of shares in issue ('000)	242,000	242,000
Basic earnings per share (sen)	<u>43.24</u>	<u>37.73</u>

Diluted earnings per share are not presented as there are no dilutive potential ordinary shares as at the date of the statement of financial position.

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23 **DIVIDENDS**

The amounts of dividends paid or declared by the Company since the end of the previous financial year was as follows:

	<u>2015</u>		<u>2014</u>	
	<u>RM</u>	<u>RM'000</u>	<u>RM</u>	<u>RM'000</u>
	<u>per share</u>		<u>per share</u>	
Dividend in respect of the financial year:				
Perpetual Non-Cumulative Preference Shares	0.08	8,000	0.08	8,000
Ordinary Shares	0.7934	191,999	-	-
		<u>199,999</u>		<u>8,000</u>
		<u><u>199,999</u></u>		<u><u>8,000</u></u>

The Directors have not recommended any final dividend to be paid for the financial year under review.

24 **OPERATING LEASE COMMITMENTS**

The future minimum lease payments of the operating lease commitments are as follows:

	<u>2015</u>	<u>2014</u>
	<u>RM'000</u>	<u>RM'000</u>
Not later than 1 year	375	227
Later than 1 year and not later than 5 years	306	49
	<u>681</u>	<u>276</u>
	<u><u>681</u></u>	<u><u>276</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

25 CAPITAL COMMITMENTS

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Approved and contracted for:</u>		
Property and equipment	1,576	3,575
<u>Approved but not contracted for:</u>		
Property and equipment	792	101
	<u>2,368</u>	<u>3,676</u>

26 FAIR VALUE MEASUREMENTS

Fair value of assets and liabilities for which fair value is disclosed at reporting date

The Company measures at fair value for financial instruments classified at fair value through profit or loss on a recurring basis. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset or liability being valued occurs with sufficient frequency and volume to provide pricing information on an ongoing basis.

An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The Company does not have any liabilities carried at fair value as at 31 December 2015 and 2014.

The Company does not have assets or liabilities measured at fair value on a non-recurring basis during the financial year ended 31 December 2015 (2014: nil).

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NOTES TO THE FINANCIAL STATEMENTS
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26 FAIR VALUE MEASUREMENTS (CONTINUED)

A summary of the fair value hierarchy of assets not carried at fair value but for which the fair value is disclosed as at 31 December 2015 is shown below.

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>At 31 December 2015</u>				
Assets for which the fair value is disclosed				
Self-occupied properties	-	42,280	-	42,280
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets for which the fair value is disclosed	-	42,280	-	42,280
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>At 31 December 2014</u>				
Assets for which the fair value is disclosed				
Self-occupied properties	-	42,280	-	42,280
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets for which the fair value is disclosed	-	42,280	-	42,280
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Level 2 fair value disclosure for self-occupied properties have been derived using the sales comparison approach. Under the sales comparison approach, the recent sales prices of properties in close proximity are adjusted for differences in key attributes such as tenure, location and condition of the properties. The most significant input into this valuation approach is selling price per square foot.

The Company does not have any liabilities not carried at fair value but for which fair value is disclosed as at 31 December 2015 and 2014.

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NOTES TO THE FINANCIAL STATEMENTS
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27 SIGNIFICANT RELATED PARTY DISCLOSURES

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

<u>Company</u>	<u>Country of incorporation</u>	<u>Relationship</u>
Khazanah Nasional Berhad ("KNB")	Malaysia	Ultimate holding company
Avicennia Capital Sdn Bhd ("ACSB")	Malaysia	Penultimate holding company (financial holding company)
Renggis Ventures Sdn Bhd ("RVSB")	Malaysia	Immediate holding company
Sun Life Assurance Company of Canada ("SLACC")	Canada	Significant shareholder
Sun Life Financial Inc. ("SLF")	Canada	Ultimate holding company of SLACC
CIMB Group Holdings Berhad ("CIMBG")	Malaysia	Associate of the ultimate holding company
CIG Berhad ("CIGB")	Malaysia	Subsidiary of CIMBG and shareholder of the immediate holding company
CIMB Bank Berhad ("CIMB Bank")	Malaysia	Subsidiary of CIMBG
CIMB Investment Bank Berhad ("CIMB")	Malaysia	Subsidiary of CIMBG
CIMB Principal Asset Management Berhad ("CIMB Principal")	Malaysia	Subsidiary of CIMBG
CIMB Wealth Advisor Berhad ("CWAB")	Malaysia	Subsidiary of CIMBG
CIMB Islamic Bank Berhad ("CIBB")	Malaysia	Subsidiary of CIMBG
Sun Life Malaysia Takaful Berhad ("SLMTB")	Malaysia	Fellow subsidiary of the ultimate holding company
Key management personnel		*

* Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel of the Company comprise of the Board of Directors, Chief Executive Officer and the management committee members of the Company.

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NOTES TO THE FINANCIAL STATEMENTS
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27 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These transactions were carried out on terms and conditions negotiated between the related parties.

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions with related parties during the financial year:

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>(Income)/expenses</u>		
Premiums received from CIMB Bank and CIMB Principal	(8,292)	(5,453)
Premiums paid to SLMTB	248	246
Interest earned from deposits in CIMB Bank and CIBB	(769)	(220)
Commission paid to CIMB Bank and CWAB	42,779	43,981
Sales and marketing expenses paid to CIMB Bank	20,222	20,128
Rental income received from CIMB Bank and SLMTB	(522)	(519)
Shared service expenses charged to SLMTB	(34,308)	(27,268)
Recharges of cost paid to SLACC	1,575	2,395
Investment management fee paid to CIMB Principal	629	342
Internal audit fees paid to SLACC	104	44
	<u> </u>	<u> </u>

- (b) Included in the statement of financial position of the Company are significant related party balances, represented by the following:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Amount due from/(to) other related companies within the KNB group:		
Bank balances	14,582	20,678
Fixed and call deposits with financial institutions	4,791	17,902
Negotiable instrument of deposits	-	22,693
Quoted equity securities	22,534	23,638
Unquoted corporate debt securities	141,854	159,571
Unit trust funds	103,524	8,207
	<u> </u>	<u> </u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

27 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

- (b) Included in the statement of financial position of the Company are significant related party balances, represented by the following: (continued)

	<u>2015</u> RM'000	<u>2014</u> RM'000
Amount due from SLMTB	6,026	3,187
Amount due (to)/from SLACC	(1,088)	44
Amount due to CIMB Bank	(7,760)	(7,589)

Amount due from/(to) related parties are unsecured, non-interest bearing and have no fixed repayment terms.

- (c) Compensation of key management personnel

Total compensation paid and payable to the Company's key management personnel during the financial year was as follows:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Salaries and other short-term employee benefits	8,666	8,154
Defined contribution plan	1,009	1,158
Fees and allowance	976	978
Share-based payment plan	239	115
	<u>10,890</u>	<u>10,405</u>

The estimated cash value of benefits-in-kind provided to key management personnel of the Company amounted to RM255,396 (2014: 209,952).

28 RISK MANAGEMENT FRAMEWORK

- (a) Risk management

The Board recognises that risk management is an integral part of the Company's business objectives and is critical for the Company to achieve continued profitability and sustainable growth in shareholders' value. In pursuing these objectives, the Company has put in place a Risk Management Framework ("RMF") to manage its risks and opportunities. The Board has established the Risk Management Committee ("RMC") with the primary responsibility of ensuring the effective functioning of the RMF. The RMC is supported by management-level committees; namely, the Enterprise Risk Management Committee ("ERMC"), the Asset and Liability Committee ("ALCO") and the Investment Committee that provides oversight responsibilities on operational, financial and insurance risks management in facilitating the optimisation of the risk and return profile of the Company.

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28 RISK MANAGEMENT FRAMEWORK (continued)

(a) Risk management (continued)

The RMF involves an on-going process of identifying, evaluating, monitoring, managing and reporting significant risks affecting the achievement of the Company's business objectives. It provides the Board and the management with a tool to anticipate and manage both the existing and potential risks, taking into consideration the changing risk profiles as dictated by changes in business and regulatory environment and the Company's strategies and functional activities throughout the financial year.

The Company operates a 'three lines of defence' model. Primary responsibility for the application of the RMF lies with business management (the first line of defence). Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by the risk management function (the second line of defence). The design of the RMF is also primarily the responsibility of the second line of defence. Independent and objective assurance on the robustness of the RMF and the appropriateness and effectiveness of internal control is provided by the Internal Audit division (the third line of defence).

To promote a consistent and rigorous approach to risk management, the Company has a set of formal risk management policies. These risk policies set out the risk management and control standards for the Company's operations. As the Company's business responds to changing market conditions and customer needs, the management regularly monitors the appropriateness of the Company's risk policies to ensure that they remain up-to-date.

(b) Capital management

Capital management risk is defined as the risk of having an insufficient capital base, which undermines execution of strategic objectives, reduces the ability of the Company to cope with losses not anticipated, and reduces confidence of the market, policyholders and creditors.

The Company's capital management objective is to maintain effective capital management processes and a prudent level of capital resources, consistent with the risk appetite agreed by the Board from time to time. It is designed to provide the principles to ensure the efficient management of capital whereby capital resources must be managed in a way which optimises returns to shareholders whilst safeguarding the interests of other stakeholders and the regulator.

The capital management strategy of the Company is to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of shareholders and complies with externally imposed capital requirements by maintaining the level of capital required under the Risk-Based Capital Framework by BNM, as set out in Note 31 to the financial statements.

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28 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Governance

The risk management policies identify the risks inherent in different elements of the Company and articulate how these should be managed. The policies include the level of tolerance (or appetite) in relation to each of the inherent risks and where the risk is material, the minimum standards of control the Company is expected to maintain. From a risk management governance perspective, the RMC has been established to assist the Board in its oversight of risk and risk management in the Company. The RMC reports and recommends to the Board on the risk management strategies, policies, risk tolerance levels, review and assess the adequacy of the risk management policies and framework, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.

(d) Asset-Liability Management (“ALM”) framework

The Company’s ALM modelling is based on a projection of both assets and liabilities into the future. The Company monitors its asset and liability matching positions through monthly interest rate sensitivity tests and low risk government bonds management. The Company’s investment policy requires that assets match as closely as possible with liabilities of the appropriate amount, type and duration to minimise ALM risk. It is a requirement of the asset liability risk management policy to match the duration within a maximum deviation of one (1) year. At times, this may either not be possible due to lack of availability of assets or not desirable if additional risk is required to make returns sufficient to meet policy owners’ guarantees.

29 INSURANCE RISK

Insurance risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and may result in the inability to meet its liabilities.

The Company’s life insurance businesses are exposed to a range of life insurance risks from various products. In providing insurance protection, the Company has to manage risks such as mortality (the death of policyholders), morbidity (ill health), persistency, product design and pricing.

The mortality and morbidity risks are managed through the use of reinsurance to transfer excessive risk exposures, using appropriate actuarial techniques as well as other mitigation measures.

Persistency (or lapse) risk is managed through frequent monitoring of experience. Where possible, the potential financial impact of lapses is reduced by the product design. Persistency risk is also mitigated through persistency management, applying best practices in the setting of lapse assumptions, product design requirements, experience monitoring and management actions.

Poorly designed or inadequately priced products can lead to both financial loss and reputation risk to the Company. Policies have been developed to support the Company through the product cycle development process, financial analysis and pricing.

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29 INSURANCE RISK (CONTINUED)

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

	2015			2014		
	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Re- insurance</u> RM'000	<u>Net</u> RM'000
Whole life	(10,860)	(131)	(10,991)	(24,582)	(160)	(24,742)
Term assurance	229,421	(10,854)	218,567	228,745	(10,221)	218,524
Endowment	260,971	(924)	260,047	293,335	(814)	292,521
Mortgage	668,545	(94,149)	574,396	617,005	(77,322)	539,683
Others	53,351	(1,264)	52,087	78,553	(1,794)	76,759
	<u>1,201,428</u>	<u>(107,322)</u>	<u>1,094,106</u>	<u>1,193,056</u>	<u>(90,311)</u>	<u>1,102,745</u>

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

Key assumptions

Material judgment is required in determining the actuarial liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

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29 INSURANCE RISK (CONTINUED)

Key assumptions (continued)

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

Discount rate

i. Risk-free rate

Risk-free rate is used to discount cash flows for corresponding durations for Non-Participating and Investment-Linked policies' liabilities calculation, and Participating insurance fund policies, where only the guaranteed benefits are considered.

These risk-free rates from durations of 1 to 15 years are the Malaysian Government Securities ("MGS") yields taken from Bond Web, which is a recognised bond pricing agency in Malaysia. As MGS yields are only available for terms of 1, 2, 3, 5, 7, 10 and 15, the yields in between are interpolated.

For durations of 15 years or more, the MGS yields with 15-years term to maturity are used.

The risk-free rates employed are gross of tax on investment income in the life fund.

ii. Fund-based yield

Fund-based yield is used in the Participating fund to discount the cash flows for corresponding durations where total guaranteed and non-guaranteed benefits are considered.

A flat gross fund-based yield of 4.33% (2014: 4.38%) per annum is assumed for all durations.

The fund-based yield employed is reduced for tax on investment income in the Participating fund.

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29 INSURANCE RISK (CONTINUED)

Key assumptions (continued)

Mortality and morbidity

Best estimate assumptions are based on the Company's recent experience studies. Mortality assumption used for the Company's major product is 80% of the industry's mortality table with provision of risk margin for adverse deviation ("PRAD") of 10%.

Lapse rate

Best estimate assumptions are based on the Company's recent experience studies. Depending on the product's feature, PRAD is set at 25% of the best estimate assumptions.

Management expenses

Best estimate assumptions are based on the experience of the Company. An inflation rate of 3.8% per annum is adopted for each policy expense. Maintenance expense overruns for future years have been set aside. The PRAD on expense loading is set at 5% of the best estimate assumptions. Allowance is also made for payment of commission to distributors.

Investment-linked funds' future growth rate

Net-of-tax expected fund investment return is used for non-guaranteed Investment-Linked funds' growth rate assumption.

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29 INSURANCE RISK (CONTINUED)

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 actuarial liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate actuarial 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>Change in best estimate assumptions</u> %	<u>Impact on gross actuarial liabilities</u> RM'000	<u>Impact on net actuarial liabilities</u> RM'000	<u>Impact on profit before tax</u> RM'000	<u>Impact on equity*</u> RM'000
<u>2015</u>					
Mortality/morbidity	+10	71,033	15,954	(15,861)	(12,530)
Expenses	+10	9,346	9,346	(9,303)	(7,349)
Lapse and surrender rates	+10	5,506	7,156	(7,326)	(5,788)
Discount rate	-1	88,566	79,863	(78,266)	(61,830)
<u>2014</u>					
Mortality/morbidity	+10	66,613	17,465	(17,351)	(13,707)
Expenses	+10	9,310	9,310	(9,259)	(7,315)
Lapse and surrender rates	+10	3,538	4,842	(5,033)	(3,976)
Discount rate	-1	85,154	78,207	(76,362)	(60,326)

* Impact on equity reflects adjustments for tax, where applicable.

The methods used and significant assumptions made for deriving sensitivity information did not change from the previous financial year.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS

(a) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet the payment obligations of the principal and/or interest. Exposure to such risk arises primarily from default risk of corporate bonds purchased.

The Company manages the exposure to individual counterparties, by measuring exposure against internal and regulatory limits. These limits are governed by BNM's regulatory limits and the Company's internal limits, taking into account credit ratings issued by authorised rating agencies. The Company is also exposed to credit risk through the use of reinsurance. Reinsurance arrangements are only placed with providers who meet the Company's counterparty credit standards.

The Company only purchases corporate bonds of high credit standing (with minimum rating of AA) as rated by authorised rating agencies. The Company also actively monitors and considers the risk of fall in the value of fixed interest securities from changes in the perceived credit worthiness of the issuer by conducting credit reviews and credit bond analysis on a regular basis as stipulated in the Investment Guidelines of the Company.

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

The method used in monitoring the credit risk exposure to the Company did not change from the previous financial year.

The Company has not provided the credit risk analysis for the financial assets of the investment-linked business. This is due to the fact that in investment-linked business, the liabilities to policyholders are linked to the performance and value of the assets that back those liabilities and shareholders have no direct exposure to any credit risk in these assets. The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Credit exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position.

<u>2015</u>	<u>Life and Shareholders' funds</u> RM'000	<u>Investment- linked funds</u> RM'000	<u>Total</u> RM'000
<u>LAR</u>			
Fixed and call deposits	84,664	5,879	90,543
Loans	9,781	-	9,781
<u>Financial assets at FVTPL – designated upon initial recognition</u>			
Malaysian Government Securities	431,208	-	431,208
Cagamas bonds	21,709	-	21,709
Quoted equity securities	47,137	49,538	96,675
Unit trust funds	5	117,115	117,120
Unquoted corporate debt securities	989,183	33,952	1,023,135
Negotiable instrument of deposits	-	-	-
Unquoted equity securities	174	-	174
Reinsurance assets	120,221	-	120,221
Insurance receivables	4,854	-	4,854
Other receivables	10,518	837	11,355
Cash and bank balances	14,670	21	14,691
	<u>1,734,124</u>	<u>207,342</u>	<u>1,941,466</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Credit exposure (continued)

The table below shows the maximum exposure to credit risk for the components on the statement of financial position. (continued)

<u>2014</u>	<u>Life and Shareholders' funds</u> RM'000	<u>Investment- linked funds</u> RM'000	<u>Total</u> RM'000
<u>LAR</u>			
Fixed and call deposits	133,963	11,934	145,897
Loans	9,205	-	9,205
<u>Financial assets at FVTPL – designated upon initial recognition</u>			
Malaysian Government Securities	393,668	-	393,668
Cagamas bonds	27,149	-	27,149
Quoted equity securities	53,292	45,436	98,728
Unit trust funds	5,405	20,298	25,703
Unquoted corporate debt securities	1,066,876	33,336	1,100,212
Negotiable instrument of deposits	-	22,693	22,693
Unquoted equity securities	174	-	174
Reinsurance assets	98,936	-	98,936
Insurance receivables	3,607	-	3,607
Other receivables	11,372	2,798	14,170
Cash and bank balances	20,808	63	20,871
	<u>1,824,455</u>	<u>136,558</u>	<u>1,961,013</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(a) 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 authorised rating agencies' credit ratings of counterparties.

2015	Neither past-due nor impaired					Not subject to credit risk	Investment- linked funds	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>LAR</u>										
Fixed and call deposits	18,056	66,608	-	-	-	-	5,879	-	-	90,543
Loans	-	-	-	-	9,781	-	-	-	-	9,781
Financial assets at FVTPL - <u>designated upon initial recognition</u>										
Malaysian Government Securities	-	-	-	-	431,208	-	-	-	-	431,208
Cagamas bonds	21,709	-	-	-	-	-	-	-	-	21,709
Quoted equity securities	-	-	-	-	-	47,137	49,538	-	-	96,675
Unit trust funds	-	-	-	-	-	5	117,115	-	-	117,120
Unquoted corporate debt securities	156,649	418,856	-	-	413,678	-	33,952	-	-	1,023,135
Negotiable instrument of deposits	-	-	-	-	-	-	-	-	-	-
Unquoted equity securities	-	-	-	-	-	174	-	-	-	174
Reinsurance assets	-	89,290	34	-	30,897	-	-	-	-	120,221
Insurance receivables	-	-	-	-	4,854	-	-	-	-	4,854
Other receivables	-	-	-	-	10,518	-	837	-	-	11,355
Cash and bank balances	14,572	3	-	-	95	-	21	-	-	14,691
	210,986	574,757	34	-	901,031	47,316	207,342	-	-	1,941,466

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NOTES TO THE FINANCIAL STATEMENTS
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30 FINANCIAL RISKS (CONTINUED)

(a) 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 authorised rating agencies' credit ratings of counterparties. (continued)

2014	Neither past-due nor impaired					Not subject to credit risk	Investment- linked funds	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>LAR</u>										
Fixed and call deposits	76,620	53,431	3,912	-	-	-	11,934	-	-	145,897
Loans	-	-	-	-	9,173	-	-	32	-	9,205
Financial assets at FVTPL <u>- designated upon initial recognition</u>										
Malaysian Government Securities	-	-	-	-	393,668	-	-	-	-	393,668
Cagamas bonds	27,149	-	-	-	-	-	-	-	-	27,149
Quoted equity securities	-	-	-	-	-	53,292	45,436	-	-	98,728
Unit trust funds	-	-	-	-	-	5,405	20,298	-	-	25,703
Unquoted corporate debt securities	146,161	442,294	-	-	478,421	-	33,336	-	-	1,100,212
Negotiable instrument of deposits	-	-	-	-	-	-	22,693	-	-	22,693
Unquoted equity securities	-	-	-	-	-	174	-	-	-	174
Reinsurance assets	-	72,146	-	-	26,790	-	-	-	-	98,936
Insurance receivables	-	-	-	-	3,607	-	-	-	-	3,607
Other receivables	-	-	-	-	11,372	-	2,798	-	-	14,170
Cash and bank balances	20,622	3	-	-	183	-	63	-	-	20,871
	<u>270,552</u>	<u>567,874</u>	<u>3,912</u>	<u>-</u>	<u>923,214</u>	<u>58,871</u>	<u>136,558</u>	<u>32</u>	<u>-</u>	<u>1,961,013</u>

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NOTES TO THE FINANCIAL STATEMENTS
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30 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Age analysis of financial assets past due but not impaired

	<u>< 180 days</u> RM'000	<u>> 180 days</u> RM'000	<u>Total</u> RM'000
<u>2015</u>			
Loan and receivables	-	-	-
	<u> </u>	<u> </u>	<u> </u>
<u>2014</u>			
Loan and receivables	-	32	32
	<u> </u>	<u> </u>	<u> </u>

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30 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk where the Company is unable to meet its obligations at reasonable cost or at any time. The Investment department of the Company manages this risk by monitoring daily as well as monthly, projected and actual cash inflows/outflows and by ensuring that a reasonable amount of financial assets are kept in liquid instruments at all times. The Company has a strong liquidity position and seeks to maintain sufficient financial resources to meet its obligations as they fall due.

The method used in monitoring the liquidity risk did not change from the previous financial year.

Maturity profiles

The table below summarises the maturity profile of the Company's financial assets and financial liabilities into their relevant maturity groupings based on the remaining undiscounted contractual obligations. All liabilities are presented on a contractual cash flow basis except for the insurance contract liabilities, the maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance contract liabilities.

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

Investment-linked fund liabilities are repayable or transferable upon notice by policyholders and are disclosed separately under the "Investment-linked funds" column. Repayments which are subject to notice are treated as if such notice were to be given immediately.

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30 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

<u>2015</u>	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Investment- linked funds RM'000	Total RM'000
<u>LAR</u>									
Fixed and call deposits	90,543	84,715	-	-	-	-	-	5,879	90,594
Loans	9,781	9,781	-	-	-	-	-	-	9,781
Financial assets at FVTPL - <u>designated upon initial recognition</u>									
Malaysian Government Securities	431,208	22,202	171,955	55,345	302,930	32,601	-	-	585,033
Cagamas bonds	21,709	1,555	17,131	650	7,474	-	-	-	26,810
Quoted equity securities	96,675	-	-	-	-	-	47,137	49,538	96,675
Unit trust funds	117,120	-	-	-	-	-	5	117,115	117,120
Unquoted corporate debt securities	1,023,135	119,223	170,546	169,756	830,506	124,654	-	33,952	1,448,637
Negotiable instrument of deposits	-	-	-	-	-	-	-	-	-
Unquoted equity securities	174	-	-	-	-	-	174	-	174
Reinsurance assets	120,221	19,760	21,191	19,215	71,536	39,053	-	-	170,755
Insurance receivables	4,854	4,854	-	-	-	-	-	-	4,854
Other receivables	11,355	10,518	-	-	-	-	-	837	11,355
Cash and bank balances	14,691	14,670	-	-	-	-	-	21	14,691
Total assets	1,941,466	287,278	380,823	244,966	1,212,446	196,308	47,316	207,342	2,576,479

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Investment- linked funds RM'000	Total RM'000
<u>2015</u> (continued)									
Insurance contract liabilities	1,373,046	185,528	196,138	169,158	635,157	389,479	430	171,188	1,747,078
Insurance claims liabilities	14,542	14,542	-	-	-	-	-	-	14,542
Insurance payables	20,134	20,134	-	-	-	-	-	-	20,134
Other financial liabilities	8,321	8,287	-	-	-	-	-	34	8,321
Other payables	40,550	40,232	-	-	-	-	-	318	40,550
Total liabilities	<u>1,456,593</u>	<u>268,723</u>	<u>196,138</u>	<u>169,158</u>	<u>635,157</u>	<u>389,479</u>	<u>430</u>	<u>171,540</u>	<u>1,830,625</u>

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SUN LIFE MALAYSIA ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

<u>2014</u>	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Investment- linked funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>LAR</u>									
Fixed and call deposits	145,897	134,013	-	-	-	-	-	11,934	145,947
Loans	9,205	9,205	-	-	-	-	-	-	9,205
Financial assets at FVTPL - <u>designated upon initial recognition</u>									
Malaysian Government Securities	393,668	19,451	33,102	232,584	187,932	41,041	-	-	514,110
Cagamas bonds	27,149	1,830	2,827	16,725	14,126	-	-	-	35,508
Quoted equity securities	98,728	-	-	-	-	-	53,292	45,436	98,728
Unit trust funds	25,703	-	-	-	-	-	5,405	20,298	25,703
Unquoted corporate debt securities	1,100,212	94,975	169,410	239,564	886,140	168,694	-	33,336	1,592,119
Negotiable instrument of deposits	22,693	-	-	-	-	-	-	22,693	22,693
Unquoted equity securities	174	-	-	-	-	-	174	-	174
Reinsurance assets	98,936	13,947	16,679	15,553	61,331	34,516	-	-	142,026
Insurance receivables	3,607	3,607	-	-	-	-	-	-	3,607
Other receivables	14,170	11,372	-	-	-	-	-	2,798	14,170
Cash and bank balances	20,871	20,808	-	-	-	-	-	63	20,871
Total assets	<u>1,961,013</u>	<u>309,208</u>	<u>222,018</u>	<u>504,426</u>	<u>1,149,529</u>	<u>244,251</u>	<u>58,871</u>	<u>136,558</u>	<u>2,624,861</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Investment- linked funds RM'000	Total RM'000
<u>2014</u> (continued)									
Insurance contract liabilities	1,292,932	212,967	184,639	178,454	627,248	341,416	540	99,336	1,644,600
Insurance claims liabilities	12,770	12,770	-	-	-	-	-	-	12,770
Insurance payables	13,291	13,291	-	-	-	-	-	-	13,291
Other financial liabilities	12,008	10,571	-	-	-	-	-	1,437	12,008
Other payables	31,667	31,473	-	-	-	-	-	194	31,667
Total liabilities	<u>1,362,668</u>	<u>281,072</u>	<u>184,639</u>	<u>178,454</u>	<u>627,248</u>	<u>341,416</u>	<u>540</u>	<u>100,967</u>	<u>1,714,336</u>

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30 FINANCIAL RISKS (CONTINUED)

(c) Market risk

Market risk is the risk of assets/liabilities values being adversely affected by movements in market prices or rates. This includes equity prices and interest rates. It is recognised that such risk is inevitable from the business that the Company undertakes, and that a certain level of market risk is desirable to deliver benefits to both policyholders and shareholders by achieving the Company's financial objectives.

The Company manages market risk by adopting asset liability matching criteria, to minimise the impact of mismatches between the value of assets and liabilities from market movements. However where any mismatch is within the Company's appetite, the impact is monitored through economic capital measures.

Volatility in interest rate is the Company's largest market risk exposure. The Company monitors market price movements through regular stress/sensitivity testing and constant supervision.

The method used in monitoring market risk did not change from the previous financial year.

(i) Interest rate risk

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

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed rate instruments expose the Company to fair value interest risk.

The Company's concentration of interest rate risk arises from fixed rate instruments and the Company's asset liability risk management policy requires management to manage the interest rate risk by maintaining an appropriate liability driven investment strategy. Floating rate instruments will be re-priced at intervals of not more than one (1) year. Interest on fixed rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before taxation and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

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NOTES TO THE FINANCIAL STATEMENTS
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30 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

(i) Interest rate risk (continued)

<u>Change in interest rate</u>	<u>2015</u>	
	<u>Impact on profit before taxation</u> RM'000	<u>Impact on equity*</u> RM'000
+ 100 basis points	(88,776)	(66,582)
- 100 basis points	98,605	73,954
		<u>2014</u>
<u>Change in interest rate</u>	<u>Impact on profit before taxation</u> RM'000	<u>Impact on equity*</u> RM'000
+ 100 basis points	(96,794)	(72,596)
- 100 basis points	107,573	80,680

* Impact on equity reflects adjustments for tax, where applicable.

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

(ii) Price risk

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

The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The Company's asset liability risk management policy requires it to manage equity price risk by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in the country, sector, market and issuer, having regard also to such limits stipulated by BNM. The Company complies with BNM's stipulated limits during the financial year and has no significant concentration of price risk.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

(ii) Price risk (continued)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before taxation and equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

<u>Change in variables</u>	<u>2015</u>	
	<u>Impact on profit before taxation</u> RM'000	<u>Impact on equity*</u> RM'000
Market price + 20%	9,427	7,070
- 20%	(9,427)	(7,070)
		<u>2014</u>
<u>Change in variables</u>	<u>Impact on profit before taxation</u> RM'000	<u>Impact on equity*</u> RM'000
Market price + 20%	14,150	10,612
- 20%	(14,150)	(10,612)

* Impact on equity reflects adjustments for tax, where applicable.

The method used for deriving sensitivity information and significant variables did not change from the previous financial year. The impact of changes in price risk to the equity securities of the Participating life fund and Investment-linked funds is retained in the insurance contract liabilities.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

30 FINANCIAL RISKS (CONTINUED)

(d) Operational risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems, or from external events.

The Company has in place an Operational Risk Management (“ORM”) policy which outlines the approach in managing operational risks. From the governance perspective, the RMC and ERMC monitor and oversee the implementation of the ORM policy to ensure that the operational risk management process is in place and functioning effectively.

31 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2015, as prescribed under the RBC Framework is provided below:

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Eligible Tier 1 Capital</u>		
Share capital (paid-up)	342,000	342,000
Share premium	16,000	16,000
Retained earnings	116,507	247,065
Eligible contract liabilities	60,578	16,487
	<u>535,085</u>	<u>621,552</u>
<u>Tier 2 Capital</u>		
Amounts added to capital	-	-
Total capital available	<u><u>535,085</u></u>	<u><u>621,552</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

32 INSURANCE FUNDS

The Company's activities are organised by funds and segregated into Life and Shareholders' funds in accordance with the Financial Services Act, 2013 and Insurance Regulations, 1996.

The Company's statement of financial position and statement of comprehensive income have been further analysed by funds which are as follows:

Statement of Financial Position by Funds as at 31 December 2015

	Shareholders' Fund		Life Fund		Elimination		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Assets</u>								
Property and equipment	-	-	50,258	47,024	-	-	50,258	47,024
Financial assets	392,405	375,316	1,333,456	1,328,419	(35,840)	(35,408)	1,690,021	1,668,327
Loans and receivables	10,740	19,700	89,584	135,402	-	-	100,324	155,102
Reinsurance assets	-	-	120,221	98,936	-	-	120,221	98,936
Insurance receivables	-	-	4,854	3,607	-	-	4,854	3,607
Other receivables	130,407	253,814	11,334	12,357	(130,386)	(252,001)	11,355	14,170
Cash and bank balances	10	10	14,681	20,861	-	-	14,691	20,871
Total assets	533,562	648,840	1,624,388	1,646,606	(166,226)	(287,409)	1,991,724	2,008,037

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

32 INSURANCE FUNDS (CONTINUED)

Statement of Financial Position by Funds as at 31 December 2015 (continued)

	Shareholders' Fund		Life Fund		Elimination		Total	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Share capital	342,000	342,000	-	-	-	-	342,000	342,000
Share premiums	16,000	16,000	-	-	-	-	16,000	16,000
Retained earnings	116,507	247,065	-	-	-	-	116,507	247,065
Reserves	45,243	10,045	-	-	-	-	45,243	10,045
Total equity	519,750	615,110	-	-	-	-	519,750	615,110
<u>Liabilities</u>								
Insurance contract liabilities	-	-	1,408,886	1,328,340	(35,840)	(35,408)	1,373,046	1,292,932
Insurance claims liabilities	-	-	14,542	12,770	-	-	14,542	12,770
Insurance payables	-	-	20,134	13,291	-	-	20,134	13,291
Other financial liabilities	-	-	8,321	12,008	-	-	8,321	12,008
Other payables	656	663	170,280	283,005	(130,386)	(252,001)	40,550	31,667
Current tax liabilities	(527)	28,226	2,091	(3,480)	-	-	1,564	24,746
Deferred tax liabilities	13,683	4,841	134	672	-	-	13,817	5,513
Total liabilities	13,812	33,730	1,624,388	1,646,606	(166,226)	(287,409)	1,471,974	1,392,927
Total equity, policyholders' funds and liabilities	533,562	648,840	1,624,388	1,646,606	(166,226)	(287,409)	1,991,724	2,008,037

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

32 INSURANCE FUNDS (CONTINUED)

Statement of Comprehensive Income by Funds for the financial year ended 31 December 2015

	Shareholders' Fund		Life Fund		Elimination		Total	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Gross premiums	-	-	533,517	501,986	-	-	533,517	501,986
Premiums ceded to reinsurers	-	-	(65,215)	(58,197)	-	-	(65,215)	(58,197)
Net premiums	-	-	468,302	443,789	-	-	468,302	443,789
Investment income	16,743	17,272	62,470	55,099	-	-	79,213	72,371
Net realised gains	-	-	-	12	-	-	-	12
Net fair value gains	-	4,138	-	(1,501)	-	-	-	2,637
Other operating income	2	291	1,789	12,018	-	-	1,791	12,309
Other income	16,745	21,701	64,259	65,628	-	-	81,004	87,329
Gross benefits and claims paid	-	-	(241,812)	(186,753)	-	-	(241,812)	(186,753)
Claims ceded to reinsurers	-	-	51,859	40,007	-	-	51,859	40,007
Gross change in contract liabilities	-	-	(80,547)	(140,094)	433	-	(80,114)	(140,094)
Change in contract liabilities ceded to reinsurers	-	-	17,011	15,774	-	-	17,011	15,774
Net claims	-	-	(253,489)	(271,066)	433	-	(253,056)	(271,066)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

32 INSURANCE FUNDS (CONTINUED)

Statement of Comprehensive Income by Funds for the financial year ended 31 December 2015 (continued)

	Shareholders' Fund		Life Fund		Elimination		Total	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Net fair value losses	(1,846)	-	(6,853)	-	(433)	-	(9,132)	-
Commission expenses	-	-	(48,404)	(44,984)	-	-	(48,404)	(44,984)
Management expenses	-	-	(100,869)	(87,577)	-	-	(100,869)	(87,577)
Other operating expenses	(602)	(1,174)	-	(61)	-	-	(602)	(1,235)
Investment expenses	(39)	(131)	(1,468)	(1,774)	-	-	(1,507)	(1,905)
Other expenses	(2,487)	(1,305)	(157,594)	(134,396)	(433)	-	(160,514)	(135,701)
Profit before taxation	14,258	20,396	121,478	103,955	-	-	135,736	124,351
Tax expense attributable to policyholders and unitholders	-	-	(4,525)	(7,426)	-	-	(4,525)	(7,426)
Transfer from life fund	116,953	96,529	(116,953)	(96,529)	-	-	-	-
Profit before taxation attributable to Shareholders	131,211	116,925	-	-	-	-	131,211	116,925
Taxation	(26,572)	(25,609)	(4,525)	(7,426)	-	-	(31,097)	(33,035)
Tax expense attributable to policyholders and unitholders	-	-	4,525	7,426	-	-	4,525	7,426
Tax expense attributable to Shareholders	(26,572)	(25,609)	-	-	-	-	(26,572)	(25,609)
Net profit for the financial year	104,639	91,316	-	-	-	-	104,639	91,316

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

32 INSURANCE FUNDS (CONTINUED)

Information on Cash Flows by Funds for the financial year ended 31 December 2015

	<u>Shareholders' Fund</u>		<u>Life Fund</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash flows from:						
Operating activities	199,999	7,966	1,578	189	201,577	8,155
Investing activities	-	-	(7,758)	(5,020)	(7,758)	(5,020)
Financing activities	(199,999)	(8,000)	-	-	(199,999)	(8,000)
<hr/>						
Cash and cash equivalents:						
Net decrease in cash and cash equivalents	-	(34)	(6,180)	(4,831)	(6,180)	(4,865)
At beginning of the financial year	10	44	20,861	25,692	20,871	25,736
<hr/>						
At end of the financial year	10	10	14,681	20,861	14,691	20,871
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SUN LIFE MALAYSIA ASSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

33 INVESTMENT-LINKED FUNDS

Investment-linked funds' Statement of Financial Position as at 31 December 2015

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Assets</u>		
Financial assets	200,605	121,763
Loans and receivables	5,879	11,934
Other receivables	837	2,798
Cash and bank balances	21	63
Current tax assets	40	-
	<hr/>	<hr/>
Total assets	207,382	136,558
	<hr/>	<hr/>
<u>Liabilities</u>		
Other financial liabilities	34	1,437
Other payables	318	194
Current tax liabilities	-	119
Deferred tax liabilities	2	64
	<hr/>	<hr/>
Total liabilities	354	1,814
	<hr/>	<hr/>
Net asset value	207,028	134,744
	<hr/> <hr/>	<hr/> <hr/>

Investment-linked funds' Statement of Comprehensive Income for the financial year ended 31 December 2015

	<u>2015</u> RM'000	<u>2014</u> RM'000
Investment income	6,252	3,006
	<hr/>	<hr/>
Net fair value losses	6,252	3,006
Management expenses	(2,148)	(2,968)
Investment expenses	(1,125)	(922)
	<hr/>	<hr/>
Profit/(loss) before taxation	(572)	(545)
Taxation	2,407	(1,429)
	<hr/>	<hr/>
Net profit/(loss) for the financial year	33	129
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	2,440	(1,300)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

33 INVESTMENT-LINKED FUNDS (CONTINUED)

The statements of financial position and comprehensive income of Investment-linked funds have been adjusted for the following assets, liabilities and net asset values of Sun Life Malaysia Balanced Stable Fund, Sun Life Malaysia Balanced Moderate Fund and Sun Life Malaysia Balanced Aggressive Fund, which have been eliminated as these funds only invested in Sun Life Malaysia Growth Fund and Sun Life Malaysia Conservative Fund:

Statement of Financial Position

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Assets</u>		
Financial assets	17,268	17,729
Other receivables	223	177
Total assets	<u>17,491</u>	<u>17,906</u>
<u>Liabilities</u>		
Other payables	23	16
Current tax liabilities	28	39
Deferred tax liabilities	99	126
Total liabilities	<u>150</u>	<u>181</u>
Net asset value	<u>17,341</u>	<u>17,725</u>

Statement of Comprehensive Income

	<u>2015</u> RM'000	<u>2014</u> RM'000
Net fair value gains/(losses)	4	(341)
Investment expenses	(11)	(10)
Loss before taxation	(7)	(351)
Taxation	-	27
Net loss for the financial year	<u>(7)</u>	<u>(324)</u>