

Registration No. 198201014849 (94613-X)

HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2023**

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**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023**

		31.12.2023	30.6.2023	1.7.2022
	Note	RM'000	Restated RM'000	Restated RM'000
Assets				
Property, plant and equipment		78,357	76,214	79,229
Intangible assets	3	64,881	7,331	6,153
Right-of-use assets		7,295	8,175	7,300
Investment properties	4	471,630	471,630	471,610
Financial assets	5	24,912,013	24,030,328	21,429,461
- Fair value through profit or loss financial assets	5(a)	24,299,022	23,556,895	21,399,776
- Amortised cost financial assets	5(b)	612,991	473,433	29,685
Insurance contract assets	7	194,075	163,569	105,660
Reinsurance contract assets	8	115,175	110,793	107,391
Derivative assets		4,513	154	476
Other receivables		66,604	109,659	47,489
Cash and cash equivalents		1,163,528	1,204,357	1,596,174
Total assets		27,078,071	26,182,210	23,850,943
Equity, policyholders' fund and liabilities				
Share capital		200,000	200,000	200,000
Reserves		3,103,128	2,960,001	2,607,379
Total equity		3,303,128	3,160,001	2,807,379
Insurance contract liabilities	7	22,176,157	21,476,603	19,613,514
Reinsurance contract liabilities	8	66,689	46,430	80,421
Derivative liabilities		230	5,471	1,362
Deferred tax liabilities		581,800	516,496	378,053
Tax payables		3,637	2,312	12,065
Other payables		333,720	361,399	345,566
Lease Liabilities		7,875	8,788	7,873
Subordinated notes		604,835	604,710	604,710
Total policyholders' fund and liabilities		23,774,943	23,022,209	21,043,564
Total equity, policyholders' fund and liabilities		27,078,071	26,182,210	23,850,943

These unaudited condensed interim financial statements should be read in conjunction with the audited annual financial statements for the financial year ended 30 June 2023 and the accompanying explanatory notes attached to the unaudited condensed interim financial statements.

**UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2023**

	6 months ended 31.12.2023 RM'000	6 months ended 31.12.2022 RM'000
Insurance revenue	876,888	875,010
Insurance service expenses	(750,918)	(748,357)
Net (expenses)/income from reinsurance contracts held	(20,234)	29
Insurance service result	105,736	126,682
Investment income	592,882	538,682
Realised gains/(losses)	13,517	(7,835)
Fair value gains	194,189	549,754
Foreign exchange gains/(losses)	4,095	(2,306)
Net investment income	804,683	1,078,295
Net finance expense from insurance contracts issued	(605,461)	(864,782)
Net finance expense from reinsurance contracts held	(8,475)	(233)
Net insurance finance expenses	(613,936)	(865,015)
Net insurance and investment results	296,483	339,962
Net other operating expenses	(17,696)	(8,633)
Finance cost	(11,335)	(11,340)
Profit before taxation	267,452	319,989
Taxation	(94,325)	(119,524)
Net profit for the financial period	173,127	200,465
Earnings per share (sen)	86.56	100.23

These unaudited condensed interim financial statements should be read in conjunction with the audited annual financial statements for the financial year ended 30 June 2023 and the accompanying explanatory notes attached to the unaudited condensed interim financial statements.

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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2023**

	Issued and fully paid ordinary shares of RM1 each		Reserves		Total RM'000
	No. of shares '000	Share capital RM'000	Non-distributable	Distributable	
			*Retained earnings RM'000	Retained earnings RM'000	
At 1 July 2022 - as previously reported	200,000	200,000	1,576,582	590,438	2,367,020
- effect of adopting MFRS 17	-	-	440,359	-	440,359
At 1 July 2022 - as restated	200,000	200,000	2,016,941	590,438	2,807,379
Profit for the financial period	-	-	176,172	24,293	200,465
Dividend paid during the financial period	-	-	-	(30,000)	(30,000)
At 31 December 2022	200,000	200,000	2,193,113	584,731	2,977,844
At 1 July 2023 - as previously reported	200,000	200,000	1,752,718	668,288	2,621,006
- effect of adopting MFRS 17	-	-	538,995	-	538,995
At 1 July 2023 - as restated	200,000	200,000	2,291,713	668,288	3,160,001
Profit/(losses) for the financial period	-	-	175,496	(2,369)	173,127
Dividend paid during the financial period	-	-	-	(30,000)	(30,000)
At 31 December 2023	200,000	200,000	2,467,209	635,919	3,303,128

* Non-distributable retained earnings comprise surplus of contracts without discretionary participation features, net of deferred tax, which is attributable wholly to the shareholders and the amount and timing of the distribution to the shareholders is subject to the recommendation of the Company's appointed actuary.

These unaudited condensed interim financial statements should be read in conjunction with the audited annual financial statements for the financial year ended 30 June 2023 and the accompanying explanatory notes attached to the unaudited condensed interim financial statements.

**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2023**

	6 months ended 31.12.2023 RM'000	6 months ended 31.12.2022 RM'000
Operating activities		
Net profit for the financial period	173,127	200,465
Adjustments for:		
Investment income	(592,882)	(538,682)
Realised (gains)/losses	(13,517)	7,835
Fair value gains	(194,189)	(549,754)
Foreign exchange losses	12,791	808
Proceeds from sale of fair value through profit or loss financial assets	2,100,639	688,840
Maturity of fair value through profit or loss financial assets	415,041	703,500
Purchase of fair value through profit or loss financial assets	(3,060,508)	(2,606,254)
(Increase)/decrease in amortised cost financial assets	(135,945)	23,850
Purchase of derivatives	(10,793)	(29,590)
Interest on subordinated notes	11,229	11,229
Amortisation of incidental cost	106	111
Interest on lease liabilities	220	253
	<u>(1,467,808)</u>	<u>(2,287,854)</u>
Non-cash items:		
Depreciation of property, plant and equipment	1,977	1,790
Depreciation of right-of-use assets	1,036	1,028
Amortisation of intangible assets	7,988	1,255
Tax expense	94,325	119,524
	<u>105,326</u>	<u>123,597</u>
Changes in working capital:		
Decrease/(increase) in reinsurance assets	15,877	(23,225)
Decrease/(increase) in other receivables	57,256	(772)
Increase in insurance contract liabilities	669,048	1,173,322
Decrease in other payables	(27,679)	(37,581)
	<u>714,502</u>	<u>1,111,744</u>

**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2023 (CONT'D)**

	6 months ended 31.12.2023 RM'000	6 months ended 31.12.2022 RM'000
Cash used in operating activities	(474,853)	(852,048)
Dividend income received	197,638	166,557
Interest income received	377,073	359,449
Rental expenses paid	(1,777)	(1,121)
Income taxes paid	(26,744)	(32,764)
Net cash inflow/(outflow) from operating activities	<u>71,337</u>	<u>(359,927)</u>
Investing activities		
Purchase of property, plant and equipment	(4,154)	(1,539)
Purchase of intangible assets	(65,538)	(734)
Net cash outflow from investing activities	<u>(69,692)</u>	<u>(2,273)</u>
Financing activities		
Dividend paid	(30,000)	(30,000)
Payment of lease liabilities	(1,044)	(1,006)
Interest paid on lease liabilities	(220)	(253)
Interest paid on subordinated notes	(11,104)	(11,104)
Related expenses paid on subordinated notes	(106)	(111)
Net cash outflow from financing activities	<u>(42,474)</u>	<u>(42,474)</u>
Net decrease in cash and cash equivalents	(40,829)	(404,674)
Cash and cash equivalents at beginning of the financial period	1,204,357	1,596,174
Cash and cash equivalents at end of the financial period	<u><u>1,163,528</u></u>	<u><u>1,191,500</u></u>
Cash and cash equivalents comprise:		
Cash and bank balances	178,864	59,110
Deposits with maturity of less than 3 months		
- Licensed financial institutions	984,664	1,132,390
	<u><u>1,163,528</u></u>	<u><u>1,191,500</u></u>

**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2023 (CONT'D)**

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

(a) Analysis of changes in liabilities arising from financing activities is as follows:

	6 months ended 31.12.2023 RM'000	6 months ended 31.12.2022 RM'000
Subordinated notes		
Balance at the beginning of the financial period	604,710	604,710
Cash changes:		
- Interest paid	(11,104)	(11,104)
- Related expenses	(106)	(111)
Non-cash changes:		
- Accrued interest	11,229	11,229
- Related expenses	106	111
Balance at the end of the financial period	<u>604,835</u>	<u>604,835</u>
Leases		
Balance at the beginning of the financial period	8,788	7,873
Cash changes:		
- Repayments	(1,044)	(1,006)
- Interest paid	(220)	(253)
Non-cash changes:		
- Additions	131	1,095
- Accrued interest	220	253
Balance at the end of the financial period	<u>7,875</u>	<u>7,962</u>

These unaudited condensed interim financial statements should be read in conjunction with the audited annual financial statements for the financial year ended 30 June 2023 and the accompanying explanatory notes attached to the unaudited condensed interim financial statements.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1 . BASIS OF PREPARATION

The unaudited condensed interim financial statements for the six months ended 31 December 2023 of Hong Leong Assurance Bhd ("the Company") have been prepared under the historical cost convention, as modified by the revaluation of financial investments at fair value through other comprehensive income and financial assets/financial liabilities at fair value through profit or loss ("FVTPL") (including derivative financial instruments and revaluation of investment properties).

The unaudited condensed interim financial statements have been prepared in accordance with Malaysian Financial Reporting Standard ("MFRS") 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Guidelines on Financial Reporting issued by Bank Negara Malaysia ("BNM").

The unaudited condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's audited financial statements for the financial year ended 30 June 2023. The explanatory notes attached to the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Company since the financial year ended 30 June 2023.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation applied in the unaudited condensed financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2023 and modified for the adoption of the following accounting standards applicable for financial period beginning on or after 1 July 2023:

- Amendments to MFRS 101 'Classification of liabilities as current or non-current'
- Amendments to MFRS 101, MFRS Practice Statement 2 'Disclosure of Accounting Policies' and MFRS 108 'Definition of Accounting Estimates'
- MFRS 17 'Insurance Contracts and its amendments'
- Amendment to MFRS 112 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'
- Amendment to MFRS 17 'Initial Application of MFRS 17 and MFRS 9 - Comparative Information'
- Amendments to MFRS 16 'Lease Liability in a Sale and Leaseback'

The adoption of the above amendments is not expected to have significant impact to the financial statements, other than as disclosed in Note 23.

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

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

3 . INTANGIBLE ASSETS

	Computer software RM'000	Distribution agreement RM'000	Total RM'000
Cost			
At 1 July 2022	87,025	-	87,025
Additions	23	-	23
Reclassification	4,061	-	4,061
At 30 June 2023/ 1 July 2023	91,109	-	91,109
Additions	536	65,000	65,536
At 31 December 2023	91,645	65,000	156,645
Accumulated amortisation			
At 1 July 2022	80,872	-	80,872
Charge for the year	2,906	-	2,906
At 30 June 2023/ 1 July 2023	83,778	-	83,778
Charge for the period	1,486	6,500	7,986
At 31 December 2023	85,264	6,500	91,764
Net carrying amount			
At 30 June 2023	7,331	-	7,331
At 31 December 2023	6,381	58,500	64,881

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

4 . INVESTMENT PROPERTIES

	31.12.2023	30.6.2023
	RM'000	RM'000
As at beginning of the financial period/year	471,630	471,610
Fair value gains	-	20
As at end of the financial period/year	<u>471,630</u>	<u>471,630</u>
The analysis of investment properties is as follows:		
Freehold land and building	469,000	469,000
Leasehold land and building *	2,630	2,630
	<u>471,630</u>	<u>471,630</u>

* Leasehold land and building are right-of-use ("ROU") assets within the scope of MFRS 16. The Company applies the fair value model to ROU assets that meet the definition of investment property of MFRS 140.

The fair values of the investment properties as at 30 June 2023 were revalued by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. Fair value changes are recorded in statement of comprehensive income.

Valuation techniques adopted

Pursuant to MFRS 13 Fair Value Measurement, the Company establishes a fair value hierarchy that categories into three levels of inputs to valuation techniques used to measure fair value as disclosed in Note 5.

	31.12.2023	30.6.2023
	RM'000	RM'000
Level 2	2,630	2,630
Level 3	469,000	469,000
	<u>471,630</u>	<u>471,630</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

4 . INVESTMENT PROPERTIES (CONT'D)

Valuation techniques adopted (cont'd)

Description of valuation techniques used and key inputs to valuation on investment properties measured at Level 3:

Valuation technique	Unobservable input	31.12.2023	30.6.2023
Comparison & Investment Method	Term Yield	6.00%	6.00%
	Revisionary rate	6.50% - 6.70%	6.50% - 6.70%
	Average rental per square feet (net)	RM2.07 - RM3.84	RM2.07 - RM3.84
	Discount rate	6.50% - 6.70%	6.50% - 6.70%
	Estimated value per square feet	RM521.38 - RM799.11	RM521.38 - RM799.11

The investment properties generated rental income and incurred the following direct expenses:

	31.12.2023	30.6.2023
	RM'000	RM'000
Rental income generated	3,164	7,193
Direct operating expenses	(4,866)	(9,862)
	<u>(1,702)</u>	<u>(2,669)</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

5 . FINANCIAL ASSETS

	31.12.2023	30.6.2023
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	9,157,592	8,846,776
Corporate bonds	6,702,359	6,951,106
Equity securities	4,531,170	3,969,167
Unit trusts and real estate investment trusts	2,025,357	1,983,256
Deposits with financial institutions	2,495,535	2,280,023
	<u>24,912,013</u>	<u>24,030,328</u>

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

Fair value through profit and loss ("FVTPL") financial assets	24,299,022	23,556,895
Amortised cost ("AC") financial assets	612,991	473,433
	<u>24,912,013</u>	<u>24,030,328</u>

The following investments mature within 12 months:

FVTPL financial assets	1,298,184	854,327
AC financial assets	612,991	473,433
	<u>1,911,175</u>	<u>1,327,760</u>

The following investments mature after 12 months:

FVTPL financial assets	<u>23,000,838</u>	<u>22,702,568</u>
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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

5 . FINANCIAL ASSETS (CONT'D)

The Company's financial investments are summarised by categories as follows: (cont'd)

(a) FVTPL financial assets

	31.12.2023	30.6.2023
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	9,157,592	8,846,776
Corporate bonds		
- Unquoted in Malaysia	6,693,110	6,941,828
- Unquoted outside Malaysia	9,249	9,278
Equity securities		
- Quoted in Malaysia *	3,923,736	3,355,320
- Quoted outside Malaysia	493,779	500,421
- Unquoted in Malaysia	113,655	113,426
Unit trusts and real estate investment trusts		
- Quoted in Malaysia	160,510	187,999
- Unquoted in Malaysia	1,864,847	1,795,257
Deposits with financial institutions	1,882,544	1,806,590
	<u>24,299,022</u>	<u>23,556,895</u>

* As at 31.12.2023, includes Hong Leong Financial Group Berhad ("HLFG") ordinary shares held by RHB Trustees Berhad for the Executive Share Scheme.

(b) AC financial assets

	31.12.2023	30.6.2023
	RM'000	RM'000
At cost:		
Deposits with financial institutions	<u>612,991</u>	<u>473,433</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

6 . FAIR VALUE HIERARCHY

Recurring fair value measurements

The table below analyses those financial instruments carried at fair value by their valuation method.

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3:	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the prices represent actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2.

Level 2 valuations are mainly based on indicative fair market prices/index by reference to the quotations provided by financial institutions and brokers. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Financial instruments are classified as Level 3 if their valuations incorporate significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

6 . FAIR VALUE HIERARCHY (CONT'D)

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

	Fair value			
	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
<u>Recurring fair value measurements</u>				
31.12.2023				
Financial assets				
FVTPL financial assets	6,442,872	17,827,764	28,386	24,299,022
Derivative assets	-	4,513	-	4,513
Total assets	6,442,872	17,832,277	28,386	24,303,535
Financial liabilities				
Derivative liabilities	-	230	-	230
Total liabilities	-	230	-	230
30.6.2023				
Financial assets				
FVTPL financial assets	5,838,997	17,689,512	28,386	23,556,895
Derivative assets	-	154	-	154
Total assets	5,838,997	17,689,666	28,386	23,557,049
Financial liabilities				
Derivative liabilities	-	5,471	-	5,471
Total liabilities	-	5,471	-	5,471

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial period.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

	31.12.2023	30.6.2023
	RM'000	RM'000
FVTPL financial assets		
At 1 July 2023/1 July 2022	28,386	27,043
Fair value gains	-	1,343
At 31 December 2023/30 June 2023	28,386	28,386

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

7 . INSURANCE CONTRACT LIABILITIES

Analysis by remaining coverage and incurred claims:

	31.12.2023			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component RM'000	Loss component RM'000	RM'000	RM'000
Opening assets	(178,316)	2,672	12,075	(163,569)
Opening liabilities	17,423,789	15,093	4,037,721	21,476,603
Net balance as at 1 July	17,245,473	17,765	4,049,796	21,313,034
Insurance revenue	(876,888)	-	-	(876,888)
Insurance service expenses				
Incurred claims and other expenses	-	-	713,636	713,636
Amortisation of insurance acquisition cash flows	39,891	-	-	39,891
Losses and reversal of losses on onerous contracts	-	(2,609)	-	(2,609)
Insurance service result	(836,997)	(2,609)	713,636	(125,970)
Investment components	(542,863)	-	542,863	-
Net finance expenses from insurance contracts	528,516	61	76,884	605,461
Cash flows				
Premium received	1,551,290	-	-	1,551,290
Claims and other insurance service expenses paid, including investment components	-	-	(1,241,901)	(1,241,901)
Insurance acquisition cash flows	(119,832)	-	-	(119,832)
Total cash flows	1,431,458	-	(1,241,901)	189,557
Closing balance	17,825,587	15,217	4,141,278	21,982,082
Closing assets	(209,699)	4,219	11,405	(194,075)
Closing liabilities	18,035,286	10,998	4,129,873	22,176,157
Net balance as at 31 December	17,825,587	15,217	4,141,278	21,982,082

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

7 . INSURANCE CONTRACT LIABILITIES (CONT'D)

Reconciliation of the measurement components of insurance contract balances:

	31.12.2023			
	Estimate of present value of future cash flow RM'000	Risk adjustment for non-financial risk RM'000	Contractual service margin RM'000	Total RM'000
Opening assets	(251,423)	22,843	65,011	(163,569)
Opening liabilities	18,837,173	359,870	2,279,560	21,476,603
Net balance as at 1 July	18,585,750	382,713	2,344,571	21,313,034
Changes that relate to current services				
Contractual service margin recognised for services provided	-	-	(78,489)	(78,489)
Change in risk adjustment for non-financial risk for risk expired	-	(22,508)	-	(22,508)
Experience adjustment	(22,364)	-	-	(22,364)
Changes that relate to future services				
Contracts initially recognised in the year	(141,128)	21,572	119,559	3
Changes in estimates that adjust the contractual service margin	(216,886)	2,971	213,915	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	(2,648)	36	-	(2,612)
Insurance service result	(383,026)	2,071	254,985	(125,970)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

7 . INSURANCE CONTRACT LIABILITIES (CONT'D)

Reconciliation of the measurement components of insurance contract balances: (cont'd)

	31.12.2023			
	Estimate of present value of future cash flow RM'000	Risk adjustment for non-financial risk RM'000	Contractual service margin RM'000	Total RM'000
Net finance expenses from insurance contracts	748,890	8,621	(152,050)	605,461
Cash flows				
Premium received	1,551,290	-	-	1,551,290
Claims and other insurance service expenses paid, including investment components	(1,241,901)	-	-	(1,241,901)
Insurance acquisition cash flow	(119,832)	-	-	(119,832)
Total cash flows	189,557	-	-	189,557
Closing balance	19,141,171	393,405	2,447,506	21,982,082
Closing assets	(285,381)	23,758	67,548	(194,075)
Closing liabilities	19,426,552	369,647	2,379,958	22,176,157
Net balance as at 31 December	19,141,171	393,405	2,447,506	21,982,082

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

7 . INSURANCE CONTRACT LIABILITIES (CONT'D)

Analysis by remaining coverage and incurred claims:

	30.06.2023			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component RM'000	Loss component RM'000	RM'000	RM'000
Opening assets	(118,864)	428	12,776	(105,660)
Opening liabilities	15,942,696	1,631	3,669,187	19,613,514
Net balance as at 1 July	15,823,832	2,059	3,681,963	19,507,854
Insurance revenue	(1,756,337)	-	-	(1,756,337)
Insurance service expenses				
Incurred claims and other expenses	-	-	1,419,310	1,419,310
Amortisation of insurance acquisition cash flows	69,224	-	-	69,224
Losses and reversal of losses on onerous contracts	-	15,792	-	15,792
Insurance service result	(1,687,113)	15,792	1,419,310	(252,011)
Investment components	(956,098)	-	956,098	-
Net finance expenses from insurance contracts	1,167,493	31	145,161	1,312,685
Cash flows				
Premium received	3,149,301	-	-	3,149,301
Claims and other insurance service expenses paid, including investment components	-	-	(2,152,727)	(2,152,727)
Insurance acquisition cash flows	(252,068)	-	-	(252,068)
Total cash flows	2,897,233	-	(2,152,727)	744,506
Closing balance	17,245,347	17,882	4,049,805	21,313,034
Closing assets	(178,006)	2,662	11,775	(163,569)
Closing liabilities	17,423,353	15,220	4,038,030	21,476,603
Net balance as at 30 June	17,245,347	17,882	4,049,805	21,313,034

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

7 . INSURANCE CONTRACT LIABILITIES (CONT'D)

Reconciliation of the measurement components of insurance contract balances:

	30.06.2023			
	Estimate of present value of future cash flow RM'000	Risk adjustment for non-financial risk RM'000	Contractual service margin RM'000	Total RM'000
Opening assets	(153,086)	17,848	29,578	(105,660)
Opening liabilities	17,622,952	335,921	1,654,641	19,613,514
Net balance as at 1 July	17,469,866	353,769	1,684,219	19,507,854
Changes that relate to current services				
Contractual service margin recognised for services provided	-	-	(150,679)	(150,679)
Change in risk adjustment for non-financial risk for risk expired	-	(45,877)	-	(45,877)
Experience adjustment	(71,247)	-	-	(71,247)
Changes that relate to future services				
Contracts initially recognised in the year	(306,331)	43,249	263,171	89
Changes in estimates that adjust the contractual service margin	(332,108)	(7,431)	339,539	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	15,077	626	-	15,703
Insurance service result	(694,609)	(9,433)	452,031	(252,011)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

7 . INSURANCE CONTRACT LIABILITIES (CONT'D)

Reconciliation of the measurement components of insurance contract balances: (cont'd)

	30.06.2023			
	Estimate of present value of future cash flow RM'000	Risk adjustment for non-financial risk RM'000	Contractual service margin RM'000	Total RM'000
Net finance expenses from insurance contracts	1,636,509	38,386	(362,210)	1,312,685
Cash flows				
Premium received	3,149,301	-	-	3,149,301
Claims and other insurance service expenses paid, including investment components	(2,152,728)	-	-	(2,152,728)
Insurance acquisition cash flow	(252,067)	-	-	(252,067)
Total cash flows	744,506	-	-	744,506
Closing balance	19,156,272	382,722	1,774,040	21,313,034
Closing assets	(236,474)	20,942	51,963	(163,569)
Closing liabilities	19,392,746	361,780	1,722,077	21,476,603
Net balance as at 30 June	19,156,272	382,722	1,774,040	21,313,034

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

8 . REINSURANCE CONTRACT LIABILITIES

Analysis by remaining coverage and incurred claims:

	31.12.2023		
	Assets for remaining coverage excluding loss recovery component RM'000	Assets for incurred claims estimates of present value of future cash flows RM'000	Total RM'000
Opening assets	(33,436)	144,229	110,793
Opening liabilities	(64,604)	18,174	(46,430)
Net balance as at 1 July	(98,040)	162,403	64,363
Allocation of reinsurance premiums			
Amounts relating to the changes in the assets for remaining coverage	(93,177)	-	(93,177)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred in the period	-	72,943	72,943
Net income/(expenses) from reinsurance held	(93,177)	72,943	(20,234)
Net finance expenses from reinsurance	(8,475)	-	(8,475)
Cash flows			
Premium paid	171,854	-	171,854
Claims and other reinsurance service expenses received, including investment components	-	(159,022)	(159,022)
Total cash flows	171,854	(159,022)	12,832
Closing balance	(27,838)	76,324	48,486
Closing assets	48,322	66,853	115,175
Closing liabilities	(76,160)	9,471	(66,689)
Net balance as at 31 December	(27,838)	76,324	48,486

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

8 . REINSURANCE CONTRACT LIABILITIES (CONT'D)

Reconciliation of the measurement components of reinsurance contract balances:

	31.12.2023			
	Estimate of present value of future cash flow RM'000	Risk adjustment for non-financial risk RM'000	Contractual service margin RM'000	Total RM'000
Opening assets	48,581	59,018	3,194	110,793
Opening liabilities	(47,793)	8,050	(6,687)	(46,430)
Net balance as at 1 July	788	67,068	(3,493)	64,363
Changes that relate to current services				
Contractual service margin recognised for services provided	-	-	(1,268)	(1,268)
Change in risk adjustment for non-financial risk for risk expired	-	(3,395)	-	(3,395)
Experience adjustment	(15,571)	-	-	(15,571)
Changes that relate to future services				
Contracts initially recognised in the year	2,052	5,765	(7,817)	-
Changes in estimates that adjust the contractual service margin	(171,234)	5,077	166,157	-
Reinsurance result	(184,753)	7,447	157,072	(20,234)
Net finance income/(expenses) from reinsurance	(11,008)	2,099	434	(8,475)
Cash flows				
Premium paid	171,854	-	-	171,854
Claims and other reinsurance service expenses received, including investment components	(159,022)	-	-	(159,022)
Total cash flows	12,832	-	-	12,832
Closing balance	(182,141)	76,614	154,013	48,486
Closing assets	(114,082)	67,489	161,768	115,175
Closing liabilities	(68,059)	9,125	(7,755)	(66,689)
Net balance as at 31 December	(182,141)	76,614	154,013	48,486

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

8 . REINSURANCE CONTRACT LIABILITIES (CONT'D)

Analysis by remaining coverage and incurred claims:

	30.06.2023		
	Assets for remaining coverage excluding loss recovery component RM'000	Assets for incurred claims estimates of present value of future cash flows RM'000	Total RM'000
Opening assets	1,913	105,478	107,391
Opening liabilities	(115,550)	35,129	(80,421)
Net balance as at 1 July	(113,637)	140,607	26,970
Allocation of reinsurance premiums			
Amounts relating to the changes in the assets for remaining coverage	(166,647)	-	(166,647)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred in the period	-	145,949	145,949
Net income/(expenses) from reinsurance held	(166,647)	145,949	(20,698)
Net finance expenses from reinsurance	(129)	-	(129)
Cash flows			
Premium paid	182,373	-	182,373
Claims and other reinsurance service expenses received, including investment components	-	(124,153)	(124,153)
Total cash flows	182,373	(124,153)	58,220
Closing balance	(98,040)	162,403	64,363
Closing assets	(7,702)	118,495	110,793
Closing liabilities	(90,338)	43,908	(46,430)
Net balance as at 30 June	(98,040)	162,403	64,363

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

8 . REINSURANCE CONTRACT LIABILITIES (CONT'D)

Reconciliation of the measurement components of reinsurance contract balances:

	30.06.2023			
	Estimate of present value of future cash flow RM'000	Risk adjustment for non-financial risk RM'000	Contractual service margin RM'000	Total RM'000
Opening assets	53,851	29,871	23,669	107,391
Opening liabilities	(107,926)	30,753	(3,248)	(80,421)
Net balance as at 1 July	(54,075)	60,624	20,421	26,970
Changes that relate to current services				
Contractual service margin recognised for services provided	-	-	(1,634)	(1,634)
Change in risk adjustment for non-financial risk for risk expired	-	(6,692)	-	(6,692)
Experience adjustment	(12,372)	-	-	(12,372)
Changes that relate to future services				
Contracts initially recognised in the year	7,448	10,429	(17,877)	-
Changes in estimates that adjust the contractual service margin	6,770	(1,901)	(4,869)	-
Reinsurance result	1,846	1,836	(24,380)	(20,698)
Net finance income/(expenses) from reinsurance	(5,126)	4,608	389	(129)
Cash flows				
Premium paid	182,373	-	-	182,373
Claims and other reinsurance service expenses received, including investment components	(124,153)	-	-	(124,153)
Total cash flows	58,220	-	-	58,220
Closing balance	865	67,068	(3,570)	64,363
Closing assets	68,824	39,240	2,729	110,793
Closing liabilities	(67,959)	27,828	(6,299)	(46,430)
Net balance as at 30 June	865	67,068	(3,570)	64,363

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

9 . TOTAL CAPITAL AVAILABLE

The capital structure of the Company as at the date of the statement of financial position, consisting of all funds as prescribed under the Risk-Based Capital ("RBC") Framework is provided below:

	31.12.2023	30.6.2023
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up)	200,000	200,000
- Reserves	4,558,374	4,414,348
Eligible Tier 2 capital		
- Eligible reserves	510,000	540,000
Deductions	(64,881)	(11,745)
	<u>5,203,493</u>	<u>5,142,603</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial period ended 31.12.2023 and 30.6.2023.

10 . CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	31.12.2023	30.6.2023
	RM'000	RM'000
Authorised and contracted for:		
- Property, plant and equipment	594	44
- Intangible assets	7,922	2,520
	<u>8,516</u>	<u>2,564</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

11 . INSURANCE FUNDS

The Company's activities are organised by funds and segregated into the Life Fund and Shareholders' Fund ("SHF") in accordance with the Financial Services Act 2013. The Company's statement of financial position and income statement have been further analysed by funds which include the Life Fund ("LF") and SHF. The Life insurance business offers a wide range of participating and non-participating Whole Life, Term Assurance, Endowment and Investment-linked products.

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2023**

	SHF	LF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000
Assets				
Property, plant and equipment	1,623	76,734	-	78,357
Intangible assets	58,500	6,381	-	64,881
Right-of-use assets	352	6,943	-	7,295
Investment properties	209,000	262,630	-	471,630
Financial assets	1,199,012	23,713,001	-	24,912,013
- FVTPL financial assets	960,579	23,338,443	-	24,299,022
- Amortised cost financial assets	238,433	374,558	-	612,991
Insurance contract assets	-	194,075	-	194,075
Reinsurance contract assets	-	115,175	-	115,175
Derivative assets	182	4,331	-	4,513
Other receivables	3,014,396	102,849	(3,050,641)	66,604
Cash and cash equivalents	21,290	1,142,238	-	1,163,528
Total assets	4,504,355	25,624,357	(3,050,641)	27,078,071

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

11 . INSURANCE FUNDS (CONT'D)

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2023 (CONT'D)**

	SHF	LF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000
Equity, policyholders' fund and liabilities				
Share capital	200,000	-	-	200,000
Reserves	3,103,128	-	-	3,103,128
Total equity	3,303,128	-	-	3,303,128
Insurance contract liabilities	-	22,176,157	-	22,176,157
Reinsurance contract liabilities	-	66,689	-	66,689
Derivative liabilities	8	222	-	230
Deferred tax liabilities	541,692	40,108	-	581,800
Tax payables	(328)	3,965	-	3,637
Other payables	54,580	3,329,781	(3,050,641)	333,720
Lease Liabilities	440	7,435	-	7,875
Subordinated notes	604,835	-	-	604,835
Total policyholders' fund and liabilities	1,201,227	25,624,357	(3,050,641)	23,774,943
Total equity, policyholders' fund and liabilities	4,504,355	25,624,357	(3,050,641)	27,078,071

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

11 . INSURANCE FUNDS (CONT'D)

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 30 JUNE 2023**

	SHF	LF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000
Assets				
Property, plant and equipment	1,674	74,540	-	76,214
Intangible assets	-	7,331	-	7,331
Right-of-use assets	414	7,761	-	8,175
Investment properties	209,000	262,630	-	471,630
Financial assets	1,128,335	22,901,993	-	24,030,328
- FVTPL financial assets	1,062,317	22,494,578	-	23,556,895
- AC financial assets	66,018	407,415	-	473,433
Insurance contract assets	-	163,569	-	163,569
Reinsurance contract assets	-	110,793	-	110,793
Derivative assets	4	150	-	154
Other receivables	2,888,088	128,981	(2,907,410)	109,659
Cash and cash equivalents	56,512	1,147,845	-	1,204,357
Total assets	4,284,027	24,805,593	(2,907,410)	26,182,210

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

11 . INSURANCE FUNDS (CONT'D)

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 30 JUNE 2023 (CONT'D)**

	SHF	LF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000
Equity, policyholders' fund and liabilities				
Share capital	200,000	-	-	200,000
Reserves	2,960,001	-	-	2,960,001
Total equity	3,160,001	-	-	3,160,001
Insurance contract liabilities	-	21,476,603	-	21,476,603
Reinsurance contract liabilities	-	46,430	-	46,430
Derivative liabilities	267	5,204	-	5,471
Deferred tax liabilities	498,645	17,851	-	516,496
Tax payables	2,616	(304)	-	2,312
Other payables	17,284	3,251,525	(2,907,410)	361,399
Lease Liabilities	504	8,284	-	8,788
Subordinated notes	604,710	-	-	604,710
Total policyholders' fund and liabilities	1,124,026	24,805,593	(2,907,410)	23,022,209
Total equity, policyholders' fund and liabilities	4,284,027	24,805,593	(2,907,410)	26,182,210

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

11 . INSURANCE FUNDS (CONT'D)

**UNAUDITED CONDENSED INCOME STATEMENT BY FUND
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2023**

	SHF	LF	Total
	RM'000	RM'000	RM'000
Insurance revenue	-	876,888	876,888
Insurance service expenses	-	(750,918)	(750,918)
Net expenses from reinsurance contracts held	-	(20,234)	(20,234)
Insurance service result	-	105,736	105,736
Investment income	26,406	566,476	592,882
Realised gains	3,602	9,915	13,517
Fair value gains	10,323	183,866	194,189
Foreign exchange (losses)/gains	(224)	4,319	4,095
Net investment income	40,107	764,576	804,683
Net finance expense from insurance contracts issued	-	(605,461)	(605,461)
Net finance expense from reinsurance contracts held	-	(8,475)	(8,475)
Net insurance finance expenses	-	(613,936)	(613,936)
Net insurance and investment results	40,107	256,376	296,483
Net other operating expenses	(22,005)	4,309	(17,696)
Finance cost	(11,335)	-	(11,335)
Profit before taxation	6,767	260,685	267,452
Taxation	(9,136)	(85,189)	(94,325)
Net (loss)/profit for the financial period	(2,369)	175,496	173,127

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

11 . INSURANCE FUNDS (CONT'D)

**UNAUDITED CONDENSED INCOME STATEMENT BY FUND
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2022**

	SHF	LF	Total
	RM'000	RM'000	RM'000
Insurance revenue	-	875,010	875,010
Insurance service expenses	-	(748,357)	(748,357)
Net income from reinsurance contracts held	-	29	29
Insurance service result	-	126,682	126,682
Investment income	23,669	515,013	538,682
Realised gains/(losses)	1,718	(9,553)	(7,835)
Fair value gains	32,926	516,828	549,754
Foreign exchange losses	(344)	(1,962)	(2,306)
Net investment income	57,969	1,020,326	1,078,295
Net finance expense from insurance contracts issued	-	(864,782)	(864,782)
Net finance expense from reinsurance contracts held	-	(233)	(233)
Net insurance finance expenses	-	(865,015)	(865,015)
Net insurance and investment results	57,969	281,993	339,962
Net other operating expenses	(10,533)	1,900	(8,633)
Finance cost	(11,340)	-	(11,340)
Profit before taxation	36,096	283,893	319,989
Taxation	(11,803)	(107,721)	(119,524)
Net profit for the financial period	24,293	176,172	200,465

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

12 . INVESTMENT-LINKED FUND

The statement of financial position and statement of comprehensive income of Investment-linked funds have been adjusted for the following assets, liabilities and net asset value of HLA Dana Suria Fund which has been eliminated as the fund invested 50% in HLA Venture Dana Putra during the financial period:

	31.12.2023	30.6.2023
	RM'000	RM'000
<u>Statement of financial position</u>		
Assets		
Financial assets - FVTPL financial assets	7,970	6,708
Other receivables	7	7
Cash and cash equivalents	64	-
Total assets	<u>8,041</u>	<u>6,715</u>
Liabilities		
Deferred tax liabilities	14	(16)
Total liabilities	<u>14</u>	<u>(16)</u>
Net asset value	<u>8,027</u>	<u>6,731</u>
	6 months ended	6 months ended
	31.12.2023	31.12.2022
	RM'000	RM'000
<u>Statement of comprehensive income</u>		
Realised gains	5	2
Fair value gains	378	236
Net investment income	<u>383</u>	<u>238</u>
Net finance expense from insurance contracts issued	(352)	(219)
Net insurance finance expenses	<u>(352)</u>	<u>(219)</u>
Profit before taxation	31	19
Taxation	(31)	(19)
Net profit for the financial period	<u>-</u>	<u>-</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

13 . ITEMS OF AN UNUSUAL NATURE

The results of the Company for the financial period under review were not substantially affected by any item, transaction or event of a material and unusual nature.

14 . CHANGES IN ESTIMATE

There were no material changes in the basis used for accounting estimates for the financial period under review, other than as disclosed in Note 23.

15 . SEASONAL OR CYCLICAL FACTORS

The operations of the Company for the financial period under review were not significantly affected by seasonality or cyclical factors.

16 . CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no material contingent liabilities or assets as at the date of this report.

17 . DEBTS AND EQUITY SECURITIES

There were no issuances, cancellation, repurchases, resale and repayment of debt and equity securities during the financial period under review.

18 . DIVIDEND

A final single-tier dividend of 15 sen per share in respect of the financial year ended 30 June 2023 amounting to RM30.0 million was paid on 8 November 2023.

The Directors have not recommended any dividend to be paid for the period under review.

19 . CHANGES IN THE COMPOSITION OF THE COMPANY

There were no changes in the composition of the Company during the financial period under review.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

20 . RELATED PARTY TRANSACTIONS

All related party transactions were entered into the normal course of business and carried out on normal commercial terms.

21 . SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

There were no significant events during the financial period under review.

22 . SUBSEQUENT EVENTS AFTER THE FINANCIAL PERIOD

There were no material events subsequent to the end of the financial period under review that have not been reported in the report.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

23 . FINANCIAL EFFECTS ARISING FROM THE ADOPTION OF MFRS 17 INSURANCE CONTRACTS

The Company adopted MFRS 17 "Insurance Contracts", including any consequential amendments to other standards and subsequent amendments to MFRS17 on 1 July 2023 and has restated comparative information for the financial year 2022. The nature and effects of the changes in accounting policies are summarised as below:

MFRS 17 introduces significant changes to the accounting for insurance and reinsurance contracts, and replaces MFRS 4 "Insurance Contracts" for financial year beginning on or after 1 July 2023.

MFRS 17 establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts.

MFRS 17 provides comprehensive guidance on accounting for insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features. It introduces three new measurement models, reflecting a different extent of policyholder participation in investment performance or overall insurance entity performance. The general measurement model ("GMM"), also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin. The fulfillment cash flows represent the risk-adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period.

At inception, the contractual service margin cannot be negative. If the fulfillment cash flows lead to a negative contractual service margin at inception, it will be set to zero and the negative amount will be recorded immediately in the statement of profit or loss. At the end of a reporting period, the carrying amount of a group of insurance contracts is the sum of the liability for remaining coverage and the liability of incurred claims. The liability for remaining coverage consists of the fulfillment cash flows related to future services and the contractual service margin, while the liability for incurred claims consists of the fulfillment cash flows related to past services. The contractual service margin gets adjusted for changes in cash flows related to future services and for the interest accretion at interest rates locked-in at initial recognition of the group of contracts. A release from the contractual service margin is recognised in profit or loss each period to reflect the services provided in that period based on "coverage units".

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

23 . FINANCIAL EFFECTS ARISING FROM THE ADOPTION OF MFRS 17 INSURANCE CONTRACTS (CONT'D)

As MFRS 17 only provides principle-based guidance on how to determine the coverage units, the Company has defined account value for the reflection of investment services and the sum at risk for insurance services as the default approach to determine the coverage units. If multiple services are provided in one contract, the coverage units will be the simple sum of all maximum possible benefit amount payable assuming all events happen concurrently. The variable fee approach ("VFA") is a modification of the GMM regarding the treatment of the contractual service margin in order to accommodate direct participating contracts. An insurance contract has a direct participation feature if the following three requirements are met:

- (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

The assessment of whether an insurance contract meets these three criteria is made at product level at product pricing stage and not revised subsequently. For contracts with direct participation features, the contractual service margin is adjusted for changes in the amount of the entity's share of the fair value of the underlying items. No explicit interest accretion is required since the contractual service margin is effectively remeasured when it is adjusted for changes in financial risks.

For insurance contracts measured under GMM and VFA, the Company will allocate insurance acquisition cash flows to the groups of insurance contracts and recognise as an asset insurance acquisition cash flows paid. This will be amortised based on the coverage unit of the groups of insurance contracts.

The premium allocation approach ("PAA") is a simplified approach for the measurement of the liability of remaining coverage, an entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the annualised premiums due, less the amount of premiums that have been recognised in profit or loss over the expired portion of the coverage period based on the passage of time. The measurement of the liability for incurred claims is identical under all three measurement models, except there is no discounting applied for premium allocation approach.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

23 . FINANCIAL EFFECTS ARISING FROM THE ADOPTION OF MFRS 17 INSURANCE CONTRACTS (CONT'D)

MFRS 17 requires the separation of embedded derivatives, investment components, and performance obligations to provide non-insurance goods and services, if certain conditions are met. The separated components need to be accounted for separately according to MFRS 9 (embedded derivatives, investment components) or MFRS 15 (non-insurance goods and services). Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together.

In the statement of financial position, insurance related receivables and payables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities. The amounts presented in the statement of comprehensive income need to be disaggregated into an insurance service result, comprising insurance revenue and the insurance service expenses; and insurance finance income and expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

For insurance contracts issued, the Company adopted the modified retrospective approach for all currently modelled products in annual cohorts between 1 July 2018 to 30 June 2022. For modelled products prior to 1 July 2018, fair value approach is adopted.

In respect of reinsurance contract held, fair value approach will be applied for the reinsurance contracts held prior to 1 July 2022.

Full retrospective approach will be applied for insurance contracts issued and reinsurance contracts held from 1 July 2022 onwards.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

23 . FINANCIAL EFFECTS ARISING FROM THE ADOPTION OF MFRS 17 INSURANCE CONTRACTS (CONT'D)

The following table analyses the impact of transition on the statement of financial position of the Company from MFRS 4 to MFRS 17 as at 1 July 2022:

	30.6.2022	Classification and measurement	1.7.2022
	RM'000	RM'000	RM'000
Property, plant and equipment	79,229	-	79,229
Intangible assets	6,153	-	6,153
Right-of-use assets	7,300	-	7,300
Investment properties	471,610	-	471,610
Investments	21,725,420	(295,959)	21,429,461
- Fair value through profit or loss financial assets	21,399,776	-	21,399,776
- Amortised cost financial assets	325,644	(295,959)	29,685
Insurance contract assets	-	105,660	105,660
Reinsurance contract assets	27,287	80,104	107,391
Derivative assets	476	-	476
Insurance receivable	59,143	(59,143)	-
Other receivables	43,690	3,799	47,489
Cash and cash equivalents	1,596,174	-	1,596,174
Total assets	24,016,482	(165,539)	23,850,943
Equity, policyholders' fund and liabilities			
Share capital	200,000	-	200,000
Reserves	2,167,020	440,359	2,607,379
Total equity	2,367,020	440,359	2,807,379
Insurance contract liabilities	16,601,539	3,011,975	19,613,514
Reinsurance contract liabilities	-	80,421	80,421
Derivative liabilities	1,362	-	1,362
Deferred tax liabilities	281,575	96,478	378,053
Tax payables	12,065	-	12,065
Insurance payables	3,930,555	(3,930,555)	-
Other payables	209,783	135,783	345,566
Lease Liabilities	7,873	-	7,873
Subordinated notes	604,710	-	604,710
Total policyholders' fund and liabilities	21,649,462	(605,898)	21,043,564
Total equity, policyholders' fund and liabilities	24,016,482	(165,539)	23,850,943