

COMPANY NUMBER (94613-X)

HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

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HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 June 2017.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	<u>198,754</u>

DIVIDENDS

Since the last financial year ended 30 June 2016, a final single tier dividend of 43.5 sen per share amounting to RM87,000,000 in respect of the financial year ended 30 June 2016, was paid on 28 October 2016.

As at the date of the financial statements, the Directors have not recommended any final dividend to be paid for the financial year under review.

SHARE CAPITAL

There were no changes in the issued and paid-up share capital of the Company during the financial year.

The new Companies Act, 2016 ("New Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those 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 were adequate provisions for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework for licensed insurers issued by Bank Negara Malaysia ("BNM").

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the 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 their obligations as and when they fall due.

For the purpose of the above 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 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

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 which is 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.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 30 June 2016, the penultimate holding company and immediate holding company, i.e. Hong Leong Financial Group Berhad ("HLFG") and HLA Holdings Sdn Bhd ("HLAH") announced that Bank Negara Malaysia has no objection for HLFG and HLAH to commence negotiations with certain parties for the possible acquisition by them of HLAH's equity interest in Hong Leong Assurance Berhad, a 70% subsidiary of HLAH, subject to the negotiations being concluded within 6 months from 23 June 2016.

On 4 November 2016, HLFG announced that HLFG and HLAH could not reach an acceptable commercial agreement with the BNM approved negotiating parties and have mutually agreed to cease negotiations.

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

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

CORPORATE GOVERNANCE

Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders.

The Board also reviewed the manner in which the Bank Negara Malaysia ("BNM") policy document on Corporate Governance ("BNM CG") is applied in the Group, where applicable, as set out below.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

A. Board of Directors ("Board")

I Roles and Responsibilities of the Board

The Board assumes responsibility for effective stewardship and control of the Company and has established Terms of Reference ("TOR") to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed periodically by the Board. The key roles and responsibilities of the Board broadly covers formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure and such other responsibilities that are required of them by BNM as specified in guidelines and circulars issued by BNM from time to time.

The day-to-day business of the Company is managed by the Group Managing Director/Chief Executive Officer ("GMD/CEO") who is assisted by the management team. The GMD/CEO and his management team are accountable to the Board for the performance of the Company. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit function, internal controls; and risk management to the Board Audit and Risk Management Committee ("BARMC"). The Nomination Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and GMD/CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the GMD/CEO. This division of responsibilities between the Chairman and the GMD/CEO ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The GMD/CEO is responsible for formulating the vision and recommending policies and the strategic direction of the Company for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Company and tracking compliance and business progress.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

I Roles and Responsibilities of the Board (cont'd)

Independent Non-Executive Directors ("INEDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of the INEDs' independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") which is available at CCM's website at 'www.ssm.com.my'. In addition, the Company also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the Company.

II Board Composition

The Board comprises the Chairman who is a Non-Independent Non-Executive Director, an Executive Director, a Non-Independent Non-Executive Director and four Independent Non-Executive Directors.

The Company is guided by BNM CG in determining its board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

The Board is of view that the current size and composition of the Board are appropriate and effective for the control and direction of the Company's business.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

II Board Composition (cont'd)

During the financial year ended 30 June 2017, six (6) Board Meetings were held and the attendance of the Directors was as follows:

<u>Directors</u>	<u>Attendance</u>
YBhg Tan Sri Quek Leng Chan (Chairman, Non-Independent Non-Executive)	6/6
Mr Tan Kong Khoon (Non-Independent Executive Director)	6/6
Mr Masakatsu Komaita (Non-Independent Non-Executive Director)	6/6
YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Independent Non-Executive Director)	6/6
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Independent Non-Executive Director)	6/6
YBhg Datin Ngiam Pick Ngoh (Independent Non-Executive Director)	6/6
Ms Shalet Marian (Independent Non-Executive Director)	6/6
Ms Loh Guat Lan (Group Managing Director/Chief Executive Officer) (Resigned as Board Member w.e.f. from 1 January 2017)	3/3

Mr Quek Kon Sean has resigned from the Board on 9 July 2016 before the first Board meeting of the financial year ended 2017 and as such did not attend any of the Board meetings held during financial year ended 2017.

At the Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

Supply of Information

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary and Internal Auditors. All Directors also have access to independent professional advice at the Company's expense, in consultation with the Chairman or the GMD/CEO of the Company.

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CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Profile

YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Executive/Non-Independent

Age 74, Male, Malaysian

YBhg Tan Sri Quek Leng Chan is qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate.

YBhg Tan Sri Quek is the Chairman of Hong Leong Assurance Berhad ("HLA") and was appointed to the Board of HLA on 20 December 1982. He is a member of the Remuneration Committee of HLA.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad, a public company; Chairman of GuocoLand (Malaysia) Berhad, Hong Leong Financial Group Berhad ("HLFG"), Hong Leong Bank Berhad ("HLB") and Hong Leong Capital Berhad ("HLCB"), companies listed on the Main Market of Bursa Malaysia Securities Berhad; and Chairman of Hong Leong Foundation, a public company.

MR TAN KONG KHOON

Executive Director/Non-Independent

Age 60, Male, Singaporean

Mr Tan Kong Khoon holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advance Management Program.

Mr Tan is the President & Chief Executive Officer of HLFG. He was the Group Managing Director/Chief Executive Officer of HLB from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of Development Bank of Singapore ("DBS") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS Group.

Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank.

From March 2007 to December 2009, Mr Tan was President and Chief Executive Officer of Bank of Ayudhya, the fifth largest bank in Thailand listed on the Thailand Stock Exchange.

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CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Profile (cont'd)

MR TAN KONG KHOON

Executive Director/Non-Independent

Age 60, Male, Singaporean (cont'd)

Mr Tan was appointed to the Board of HLA on 5 April 2016 and is a member of the Nomination Committee of HLA.

Mr Tan is a Director of HCFG, HLB and HLCB, companies listed on the Main Market of Bursa Malaysia Securities Berhad. He is also a Director of Hong Leong Investment Bank Berhad, a public company.

MR MASAKATSU KOMAITA

Non-Executive Director/Non-Independent

Age 55, Male, Japanese

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 30 years of experience in the insurance industry, all of which were in MSIG, and his experience and expertise encompasses sales promotion, sales planning of insurance as well as governance and administration of international business operations.

Mr Masakatsu Komaita first joined MSIJ in 1986, and was promoted to Assistant General Manager, Insurance Planning Department of Ginsen Company Limited, a subsidiary of MSIJ in 2007. In 2010 he was appointed as the Assistant General Manager, Government Business Development Department to lead the bancassurance for life insurance in Japan Post Group before assuming his present position as Assistant General Manager, Corporate Planning of Asian Life Insurance Business Department in 2012. Mr Masakatsu Komaita was promoted to the position of General Manager on 1 April 2014 where he was responsible for business expansion into Asian local insurance business in Malaysia.

Mr Masakatsu Komaita was appointed to the Board of HLA on 1 July 2015.

Mr Masakatsu Komaita is also a Director of Hong Leong MSIG Takaful Berhad, a public company.

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CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Profile (cont'd)

YBHG DATO' SIOW KIM LUN @ SIOW KIM LIN

Non-Executive Director/Independent

Age 67, Male, Malaysian

YBhg Dato' Siow Kim Lun @ Siow Kim Lin holds an MBA from the Catholic University of Leuven, Belgium and a Bachelor of Economics (Hons) from the National University of Malaysia. He has also attended the Advanced Management Program at Harvard Business School.

YBhg Dato' Siow started his career in investment banking with Malaysia International Merchant Bankers Berhad in 1981 and had served as a Manager in its Corporate Finance Division. In 1985, he joined Permata Chartered Merchant Bank Berhad (now known as Affin Investment Bank Berhad) as Manager of Corporate Finance and subsequently became the Divisional Head of its Corporate Finance Division. From 1993 to 2006, YBhg Dato' Siow was with the Securities Commission, where he served as the Director of its Issues and Investment Division and the Director of its Market Supervision Division. He has also served as a member of the Listing Committee of Bursa Malaysia Securities Berhad from May 2007 to May 2009.

YBhg Dato' Siow is currently the Chairman to the Board of HLA Holdings Sdn Bhd ("HLAH") and is a board member of Kumpulan Wang Persaraan (Diperbadankan), Citibank Berhad, UMW Holdings Berhad, EITA Resources Berhad, Eco World International Berhad, Sunway Construction Group Berhad, MainStreet Advisers Sdn Bhd and Radiant Globaltech Berhad. He is also a member of the Land Public Transport Commission.

YBhg Dato' Siow was appointed to the Board of HLA on 30 September 2011 and is the Chairman of the Board Audit and Risk Management Committee and Remuneration Committee of HLA.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Profile (cont'd)

YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN

Non-Executive Director/Independent

Age 59, Male, Malaysian

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin received his BA (Hons) Business Studies from the Polytechnic of Central London, Masters in Business Administration from the University of Warwick, the Diploma in Marketing from the Chartered Institute of Marketing. He is a member of the Australian Institute Of Company Directors, Malaysian Institute of Management, and Malaysian Institute of Corporate Governance.

YM Tunku Dato' Mahmood Fawzy was appointed to the Board of HLA on 3 January 2012 and he is the Chairman of the Nomination Committee and a member of the Board Audit and Risk Management Committee and Remuneration Committee of HLA.

YM Tunku Dato' Mahmood Fawzy is currently the Chairman of Deutsche Bank (Malaysia) Berhad and Hong Leong MSIG Takaful Berhad. He is the Senior Independent Director of Telekom Malaysia Berhad. He also sits as a board member of Webe Digital Sdn Berhad, and Hong Leong Asset Management Bhd.

He was previously a board member of Malaysia Airports Holdings Berhad, Hong Leong Islamic Bank Berhad, Pos Malaysia Berhad, SapuraKencana Petroleum Berhad/Kencana Petroleum Berhad, and Ethos Capital One Sdn Berhad, Federation of Investment Managers Malaysia, Energy Africa Limited, and Engen Limited in South Africa.

YM Tunku Dato' Mahmood Fawzy draws on a wealth of governance, management, and cross border experience in telecommunications, investment management and private equity activity, oil and gas, marine and aviation logistics, corporate advisory, banking and financial services, across several international locations including the United Kingdom, New Zealand, South Africa and Malaysia.

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CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Profile (cont'd)

YBHG DATIN NGIAM PICK NGOH

Non-Executive Director/Independent

Age 62, Female, Malaysian

YBhg Datin Ngiam Pick Ngoh holds a Bachelor of Arts (Hons) in Social Sciences from the University of Malaya and a Diploma in Advertising and Marketing from the Institute of Communication, Advertising and Marketing (CAM), United Kingdom.

YBhg Datin Ngiam was the Group Managing Director/Chief Executive Officer of Star Publications (M) Bhd ("The Star") from 1 July 2008 to 30 June 2011. She was first employed in The Star as Advertising Sales Promotions Manager in 1985 before serving as General Manager, Advertising & Business Development in 1995. In 2004, she was appointed as Deputy Group General Manager and in 2007 she was promoted to Executive Director/Group Chief Operating Officer before assuming the office as Group Managing Director/Chief Executive Officer of The Star in 2008, a position she held till her retirement in 2011.

YBhg Datin Ngiam was a Board Member of the Audit Bureau of Circulations ("ABC") Malaysia and Chairman of the ABC Content & Communications Committee. She represented The Star on the Malaysian Newspaper Publishers Association (MNPA) as its Honorary Secretary and was a Board Member of the Advertising Standards Authority (ASA) Malaysia.

Currently, YBhg Datin Ngiam sits on the Board of Star Media Group Berhad, MUI Properties Berhad and Heineken Malaysia Berhad as an Independent Director and she also serves as a trustee of Yayasan Sin Chew.

YBhg Datin Ngiam was appointed to the Board of HLA on 1 June 2012 and is a member of the Board Audit and Risk Management Committee and Nomination Committee of HLA.

MS SHALET MARIAN

Non-Executive Director/Independent

Age 61, Female, Malaysian

Ms Shalet Marian is an accountant and is a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants.

Ms Shalet Marian's career as a public accountant with a specialization in tax spanned over 30 years. In addition, she has a wealth of experience in finance and risk management. In KPMG Malaysia, she held various senior positions including Head of Corporate Tax, Head of Indirect Tax, Head of Finance and Administration and Country Risk Manager being her last position before she took an early retirement in 2010 to refresh her skills in people management.

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CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Profile (cont'd)

MS SHALET MARIAN

Non-Executive Director/Independent

Age 61, Female, Malaysian (cont'd)

She had expanded her repertoire into the field of human and personal development. She is certified in Neuro Linguistic Programming, Lifeline Techniques, Cognitive Behaviour Models and Aubrey Daniels Institute's certification in behavioural based performance management technologies incorporating Performance Management and Coaching for Rapid Change in Business. She also gained certification in Malaysian Goods and Services Tax ("GST") from the Royal Malaysian Customs Department in 2013.

Ms Shalet Marian was appointed to the Board of HLA on 16 June 2016.

Ms Shalet Marian currently serves on 7 Eleven Malaysia Holdings Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad as Independent Director. She also acted as an advisor and consultant in technical matters to MustaphaRaj Sdn Bhd, a consultancy firm until 31 December 2015 and is the Chief Executive of Lejadi Foundation, a non-profit organization.

Directors' Training

The Company recognises the importance of continuous professional development and training for its Directors.

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Company. The Induction Programme is organised for newly appointed Directors to assist them to familiarise and to get acquainted with the Company's business, governance process, roles and responsibilities as Director of the Company. The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

The Company regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Training (cont'd)

The Company has prepared for the use of its Directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a Director vis-a-vis various laws, regulations and guidelines governing the same.

In assessing the training needs of Directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During the financial year ended 2017, the Directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its Directors and senior management.

The Directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

During the FYE 2017, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Northgate Capital Investment Management
- Grand Challenges Facing The Internet
- How Effective Boards Engage on Sucession Planning for the CEO and Top Management
- Securities Industry Development Corporation – Capital Market Director Programme
- Clarification of Audit Rating Methodology
- Khazanah Megatrends
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 : The Law & Compliance
- The Cyber Security Threat and How Board Should Mitigate Risks
- Briefing Session on Shariah Compliance Trading Window
- Sustainability Forum For Directors/CEOs: The Velocity of Global Change & Sustainability
- Invest ASEAN 2017
- Mobile World Congress Barcelona Spain – FinTech, Blockchain in Finance, Financial Services and Various modules related to Technology and Finance
- Financial Institutions Directors' Education (FIDE) Core Programme : Module A
- Bank Negara Malaysia Compliance Conference
- Digital Free Trade Zone

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Directors' Training (cont'd)

- Bank Negara Malaysia Annual Report 2016 / Financial Stability and Payments Systems Report 2016 Briefing Session
- Update on Companies Act, 2016
- An Overview of Latest Development of Shariah Standards issued by Bank Negara Malaysia - Investment Account & Investment Account Platform
- 4th Industrial Revolution: Impact and Opportunities for Manufacturing and Financial Services

Nomination Committee

The members of the Nomination Committee are as follows:

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Chairman, Independent Non-Executive Director)

Mr Tan Kong Khoon (Non-Independent Executive Director)

YBhg Datin Ngiam Pick Ngoh (Independent Non-Executive Director)

YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director) (resigned w.e.f. 24.11.2016)

YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Independent Non-Executive Director) (resigned w.e.f. 24.11.2016)

The Nomination Committee's responsibilities are as follows:

- (i) Support the Board in carrying out its functions in the following matters concerning the board, senior management and company secretary.
 - (a) appointments and removals;
 - (b) composition;
 - (c) performance evaluation and development; and
 - (d) fit and proper assessments;
- (ii) Recommend to the Board the minimum criteria and skill sets for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- (iii) Review and recommend to the Board all Board appointments, re-appointments and removals including of the Chief Executive Officer.
- (iv) Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required.
- (v) Assess annually the performance and effectiveness of the Board, Board Committees and each individual director.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board of Directors ("Board") (cont'd)

Nomination Committee (cont'd)

- (vi) Oversee the appointment and management of succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- (vii) Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2017, three (3) Nomination Committee Meetings were held and the attendance of the Members was as follows:

<u>Members</u>	<u>Attendance</u>
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	3/3
Mr Tan Kong Khoon	3/3
YBhg Datin Ngiam Pick Ngoh	3/3
YBhg Tan Sri Quek Leng Chan (resigned w.e.f. 24.11.2016)	2/2
YBhg Dato' Siow Kim Lun @ Siow Kim Lin (resigned w.e.f. 24.11.2016)	2/2

B. Directors' Remuneration

Remuneration Committee

The members of the Remuneration Committee are as follows:

YBhg Dato' Siow Kim Lun @ Siow Kim Lin
(Chairman, Independent Non-Executive Director)
YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
(Independent Non-Executive Director)

The Remuneration Committee's responsibilities are as follows:

- (i) Recommend to the Board the framework and policies governing the remuneration of the:
 - Directors;
 - Chief Executive Officer;
 - Senior management officers; and
 - Other material risk takers
- (ii) Review and recommend to the Board for approval the specific remuneration packages of executive directors and the Chief Executive Officer.
- (iii) Review and recommend to the Board for approval the remuneration of senior management officers and other material risk takers.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Directors' Remuneration (cont'd)

Remuneration Committee (cont'd)

During the financial year ended 30 June 2017, one (1) Remuneration Committee Meeting was held and the attendance of Members was as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	1/1
YBhg Tan Sri Quek Leng Chan	1/1
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	1/1

Procedure

The fees of Directors, including Non-Executive Directors, are recommended and endorsed by the Board for approval by the shareholders of the Company at the Annual General Meeting.

Disclosure

The remuneration of the Directors is set out in Note 23(b) to the financial statements.

Remuneration Policy

Hong Leong Assurance's rewards strategy is in alignment with the Hong Leong Group's total compensation philosophy which supports and promotes a high performing culture to deliver the company's vision to be a highly digital & innovative company. The rewards strategy focuses on providing a competitive remuneration and benefits package, as well as ample career progression opportunities for employees.

The company's rewards framework focuses on a balanced and right pay mix to achieve the desired long term business performance. The framework includes base pay, cash allowances, performance based variable pay, sales incentive, long term incentives, benefits and other employee programs.

The rewards framework ensures that employees are paid competitively against the industry and talent market the company is operating in; delivered via a combination of cash and non-cash elements such as shares or share-linked instruments.

Key performance indicators ("KPI") and key results areas of employees are measured and tracked diligently to ensure strong alignment of employee output to the overall business strategy and direction of the company.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**CORPORATE GOVERNANCE (CONT'D)****B. Directors' Remuneration (cont'd)****Compensation for Material Risk Takers**

The remuneration for each director, member of senior management and other material risk taker is approved by the board annually.

Deferred Compensation and Clawbacks

The deferred compensation is applicable to some of the incentive schemes introduced in the company. These are mostly for sales-type roles with built-in clawback mechanism. The clawback mechanism is introduced to ensure excessive risk taking behavior of staff is minimized and that the system does not induce excessive risk taking and sufficient control is in place. Periodic reviews are carried out to examine the effectiveness of the schemes in driving the right behaviors in achieving business goals and that there are no adverse risk elements in the approved schemes. The clawbacks mechanism is triggered when there are non-compliances to regulations and policies.

The remuneration for Senior Officers and Material Risk Takers for financial year 2016/17 is shown in the table below:

Total value of remuneration awards for the financial year	GMD/CEO		Senior Management and other Material Risk Takers	
	Unrestricted (RM)	Deferred (RM)	Unrestricted (RM)	Deferred (RM)
Fixed Remuneration				
• Cash-based	1,380,000	-	6,823,385	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
Variable Remuneration				
• Cash-based	1,815,172	-	2,291,057	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit

Board Audit and Risk Management Committee ("BARMC")

The financial reporting and internal control system of the Company is overseen by the BARMC, which comprises of the following members:

YBhg Dato' Siow Kim Lun @ Siow Kim Lin

(Chairman, Independent Non-Executive Director)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Independent Non-Executive Director)

YBhg Datin Ngiam Pick Ngoh (Independent Non-Executive Director)

Terms of Reference

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:

External Audit

- To make recommendations to the Board on the appointment, removal and remuneration of the external auditor.
- To review the terms of engagement and the audit plan prior to engaging the external auditors and/or re-appointment of the external auditors.
- To monitor and assess the independence of the external auditor, including the approval of non-audit services by the external auditor.
- To review the assistance given by the officers of the Company to the external auditor.
- To maintain regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the BARMC on significant matters.
- To review the report of the external auditor, including any significant matters, and to ensure that management has taken the necessary corrective actions in a timely manner to address the external audit findings and recommendations.
- To review third-party opinions on the design and effectiveness of the Company's internal control framework.

Financial Reporting

- To review the accuracy and adequacy of the chairman's statement (if any) in the directors' report, corporate governance disclosures, interim financial reports and annual financial statements.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Board Audit and Risk Management Committee ("BARMC") (cont'd)

Terms of Reference (cont'd)

Related Party/Connected Party Transactions

- To review and update the Board on any related party transactions involving the Company.
- To monitor compliance with the Board's conflict of interest policy.

Internal Audit

- To review and approve the adequacy of the internal audit scope, procedures, plan, and assess the performance and effectiveness of the internal audit function.
- To review the adequacy and effectiveness of internal controls and risk management processes.
- To review reports and significant findings by internal audit function, including any findings of internal investigations, and to ensure that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.
- To review reports and findings issued by regulatory authorities, and to check that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the regulatory authorities.
- To support the Board in meeting the expectations on internal audit management as set out in BNM's policy document, "Guidelines on Internal Audit Function of Licensed Institutions".
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Head of Insurance Audit, and to provide oversight on the adequacy of resources and remuneration of the internal auditors. This includes a regular review to determine whether the internal audit function has appropriate standing within the Company to undertake its activities independently and objectively.
- To engage privately with the Head of Insurance Audit on a regular basis (and in any case at least twice annually) to provide the opportunity for the Head of Insurance Audit to discuss issues faced by the internal audit function.
- To review the Audit Charter and recommend for Board approval.
- Other audit functions as may be agreed to by the BARMC and the Board.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Board Audit and Risk Management Committee ("BARMC") (cont'd)

Terms of reference (cont'd)

Risk Management

- To review management's activities in managing principal risks such as credit, market, liquidity, operational, compliance, insurance and IT risks, and the risk management process.
- To review management's reporting to the Board on measures taken to:
 - a) Identify and examine principal risks faced by the Company.
 - b) Implement appropriate systems and internal controls to manage these risks.
- To review management's major risk management strategies, policies and risk tolerance for Board's approval.
- To review management's overall framework on the Internal Capital Adequacy Assessment Process ("ICAAP"), annual risk appetite, Individual Target Capital Level ("ITCL") and Capital Management Plan for Board's approval.
- To review management's development and effective implementation of the ICAAP.
- To review management's stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results.
- To review management's periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- To review the adequacy and effectiveness of management's internal controls and risk management process.
- To review the adequacy of risk management policies and frameworks in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- To review risk management function's infrastructure, resources and systems and that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities.
- To receive reports from pertinent management committee.
- To review management's implementation of risk management as set out in BNM's policy document on Risk Governance and Corporate Governance.
- To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer.
- To engage privately with the Chief Risk Officer on a regular basis (and in any case at least twice annually) to provide the opportunity for the Chief Risk Officer to discuss issues faced by the risk management function.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Board Audit and Risk Management Committee ("BARMC") (cont'd)

Terms of reference (cont'd)

Risk Management (cont'd)

- To review management's implementation of the remuneration system on whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.
- Other risk management functions as may be agreed to by the BARMC and the Board.

Compliance

- To assist the Board in the oversight of the management of compliance risk by :
 - a) reviewing compliance policies and overseeing management's implementation of the same;
 - b) reviewing the establishment of the compliance function and the position of the Chief Compliance Officer/Head of Compliance ("CCO") to ensure the compliance function and CCO are provided with appropriate standing, authority and independence;
 - c) discussing and deliberating compliance issues regularly and ensuring such issues are resolved effectively and expeditiously;
 - d) reviewing annually the effectiveness of the Company's overall management of compliance risk, having regard to the assessments of senior management and internal audit and interactions with the CCO;
 - e) updating the Board on all significant compliance matters, including providing its views on (a) to (d) above.
- In relation to the role of the CCO, support the Board in meeting the expectations on compliance management as set out in BNM's policy document on Compliance by:
 - a) reviewing and advising on the appointment, remuneration, removal and redeployment of the CCO;
 - b) ensuring that CCO has sufficient stature to allow for effective engagement with the CEO and other members of senior management;
 - c) engaging privately with the CCO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CCO to discuss issues faced by the compliance function;
 - d) ensuring that the CCO is supported with sufficient resources to perform his duties effectively;

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Board Audit and Risk Management Committee ("BARMC") (cont'd)

Terms of reference (cont'd)

Compliance (cont'd)

- e) where CCO also carries out responsibilities in respect of other control functions, the BARMC shall be satisfied that a sound overall control environment will not be compromised by the combination of responsibilities performed by the CCO.
- Other compliance functions as may be agreed to by the BARMC and the Board.

Group Governance

- Noted that :
 - a) Hong Leong Financial Group Berhad ("HLFG") and HLA Holdings Sdn Bhd ("HLAH") are both apex entities ("Apex Entities") and have overall responsibility for ensuring the establishment and operation of a clear governance structure within their respective group of companies ("Group").
 - b) The respective Apex Entities' Boards responsibility is to promote the adoption of sound corporate governance principles throughout the Group.
 - c) The Apex Entities' audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation Group-wide.
 - d) The respective subsidiaries' board and senior management must validate that the objectives, strategies, plans, governance framework and policies set at the Apex Entities level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and ensure that entity specific risks are adequately addressed in the implementation of Group-wide policies.
- The BARMC shall validate that the objectives, strategies, plans, governance framework and policies set at the Apex Entities level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and to check that the entity specific risks are adequately addressed in the implementation of Group-wide policies.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Board Audit and Risk Management Committee ("BARMC") (cont'd)

During the financial year ended 30 June 2017, six (6) BARMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	6/6
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	6/6
YBhg Datin Ngiam Pick Ngoh	6/6

Group Internal Audit Division ("GIAD")

The Company's internal audit function is carried out by the Internal Audit Department (IAD). IAD employs a risk-based assessment approach in auditing the Company's business and operational activities. An annual audit plan is developed and approved by the BARMC. All internal audit reports which incorporates the management's responses were tabled for discussion at the BARMC meetings.

During the financial year ended 30 June 2017, GIAD carried out its duties covering audit on market conduct, compliance, actuarial, investment, financial, information technology and systems, and branches. These audits are performed in line with BNM Guidelines on Internal Audit Function and BNM Guidelines on Management of IT Environment.

The cost incurred for the internal audit function in respect of the current financial year was RM891,000 (2016: RM946,000).

Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at Board meetings.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Board Audit and Risk Management Committee ("BARMC") (cont'd)

Internal Controls and Operational Risk Management

The Board has overall responsibility for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations.

The Company has established authority limits and internal controls to manage operational risks. Authority limits and the system of internal controls are reviewed regularly to ensure continuous improvement in the control environment.

The Company has put in place adequate security controls for its Information Technology systems and has in place business resumption and contingency plans that can ensure continued operation of critical functions.

Management Accountability

The Company operates in an organisational structure and environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment. Human resource procedures of the Company provide for the setting of goals and training of each employee. The Company conducts formal appraisals for each employee on an annual basis.

The Company has an office of Corporate Communications to guide its communication policy.

Corporate Independence

The Company has complied with BNM's Guidelines on Related Party Transactions (BNM/RH/GL-018-6) in respect of all its related party undertakings. All necessary disclosures have been made to the Board regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 28 to the financial statements.

Public Accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff of the Company are required to comply with the Code of Ethics and Conduct.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

Board Audit and Risk Management Committee ("BARMC") (cont'd)

Relationship with Auditors

The external auditors are appointed on the recommendation by the BARMC, which determines the remuneration of the external auditors. The external auditors meet with the BARMC to:

- (i) Present the scope of the audit before the commencement of audit; and
- (ii) Review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

YBhg Tan Sri Quek Leng Chan (Chairman)

Mr Tan Kong Khoon

Mr Masakatsu Komaita

YBhg Dato' Siow Kim Lun @ Siow Kim Lin

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

YBhg Datin Ngiam Pick Ngoh

Ms Shalet Marian

Ms Loh Guat Lan (Resigned as Board Member with effect from 1 January 2017)

Mr Quek Kon Sean (Resigned as Board Member with effect from 9 July 2016)

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**DIRECTORS' INTERESTS**

According to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act, 2016, the Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or preference shares and/or options over ordinary shares of the Company and/or its related corporations during the financial year are as follows:

Shareholdings in which Directors have direct interests
Number of ordinary shares/preference shares/ordinary shares issued
or to be issued or acquired arising from the exercise of options*/
conversion of redeemable convertible unsecured loan stocks**
or redeemable convertible cumulative preference shares***

	Nominal value per share RM (unless indicated)	As at 1/7/2016	Acquired	Sold	As at 30/6/2017
Interests of					
YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	390,000	-	-	390,000
Hong Leong Financial Group Berhad	(1)	5,438,664	-	-	5,438,664
Guoco Group Limited	USD0.50	1,056,325	-	-	1,056,325
GuocoLand Limited	(2)	13,333,333	-	-	13,333,333
GuocoLand (Malaysia) Berhad	(1)	19,506,780	-	-	19,506,780
GL Limited	USD0.20	735,000	-	-	735,000
The Rank Group Plc	GBP13 ^{8/9} p	285,207	-	-	285,207

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

Shareholdings in which Directors have direct interests
Number of ordinary shares/preference shares/ordinary shares issued
or to be issued or acquired arising from the exercise of options*/
conversion of redeemable convertible unsecured loan stocks**
or redeemable convertible cumulative preference shares***

	Nominal value per share RM (unless indicated)	As at <u>1/7/2016</u>	<u>Acquired</u>	<u>Sold</u>	As at <u>30/6/2017</u>
Interests of YBhg Dato' Siow Kim Lun @ Siow Kim Lin in :					
GuocoLand (Malaysia) Berhad	(1)	15,000	-	-	15,000
Interests of YBhg Datin Ngiam Pick Ngoh in:					
Hong Leong Bank Berhad	(1)	5,000	-	-	5,000

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

**Shareholdings in which Directors have deemed interests
Number of ordinary shares/preference shares/ordinary shares issued
or to be issued or acquired arising from the exercise of options*/
conversion of redeemable convertible unsecured loan stocks**
or redeemable convertible cumulative preference shares*****

Nominal value per share RM (unless indicated)	As at <u>1/7/2016</u>	<u>Acquired</u>	<u>Sold</u>	As at <u>30/6/2017</u>
Interest of				
YBhg Tan Sri Quek Leng Chan in :				
Hong Leong Company (Malaysia) Berhad	(1) 13,233,455 ⁽⁷⁾	-	(5,532,000) ⁽¹³⁾	7,701,455 ⁽⁷⁾
Hong Leong Financial Group Berhad	(1) 898,436,732	2,452,500 ⁽¹²⁾	(4,730,506) ⁽¹³⁾	896,158,726 ⁽⁷⁾
Hong Leong Capital Berhad	(1) 200,805,058	-	-	200,805,058
Hong Leong Bank Berhad	(1) 1,346,237,169	-	-	1,346,237,169
Hong Leong MSIG Takaful Berhad	(1) 65,000,000	-	-	65,000,000
Hong Leong Assurance Berhad	(1) 140,000,000	-	-	140,000,000
Hong Leong Industries Berhad	(1) 245,435,003 ⁽⁷⁾	-	(2,019,333) ⁽¹³⁾	243,415,670 ⁽⁷⁾
	200,000 ^{*(7)}	-	-	200,000 ^{*(7)}
Hong Leong Yamaha Motor Sdn Bhd	(1) 17,352,872	-	-	17,352,872
Guocera Tile Industries (Meru) Sdn Bhd	(1) 19,600,000	-	-	19,600,000
Hong Leong Maruken Sdn Bhd	(1) 1,750,000	-	(1,750,000) ⁽¹⁰⁾	-
(In members' voluntary liquidation)				

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

**Shareholdings in which Directors have deemed interests
Number of ordinary shares/preference shares/ordinary shares issued
or to be issued or acquired arising from the exercise of options*/
conversion of redeemable convertible unsecured loan stocks**
or redeemable convertible cumulative preference shares*****

	Nominal value per share RM (unless indicated)	As at 1/7/2016	Acquired	Sold	As at 30/6/2017
Interest of					
YBhg Tan Sri Quek Leng Chan in : (cont'd)					
Century Touch Sdn Bhd (In members' voluntary liquidation)	(1)	6,545,001	-	-	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	(1)	10,560,627	-	-	10,560,627
Malaysian Pacific Industries Berhad	(1)	112,217,857 ⁽⁷⁾	-	(2,509,850) ⁽⁷⁾ (757,250) ⁽¹³⁾	108,950,757
Carter Resources Sdn Bhd	(1)	5,640,607	-	-	5,640,607
Carsem (M) Sdn Bhd	(1)	84,000,000	-	-	84,000,000
	(1)	22,400 ⁽⁸⁾	-	-	22,400 ⁽⁸⁾
Hume Industries Berhad	(1)	353,447,487 ⁽⁷⁾	-	(1,029,950) ⁽¹¹⁾ (2,185,879) ⁽¹³⁾	350,231,658 ⁽⁷⁾
		100,000 ^{*(7)}	-	-	100,000 ^{*(7)}

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

**Shareholdings in which Directors have deemed interests
Number of ordinary shares/preference shares/ordinary shares issued
or to be issued or acquired arising from the exercise of options*/
conversion of redeemable convertible unsecured loan stocks**
or redeemable convertible cumulative preference shares*****

	Nominal value per share RM (unless indicated)	As at 1/7/2016	Acquired	Sold	As at 30/6/2017
Interest of					
YBhg Tan Sri Quek Leng Chan in : (cont'd)					
Guoco Group Limited	USD0.50	237,124,930	-	-	237,124,930
GuocoLand Limited	(2)	817,911,030	-	-	817,911,030
		100,000 ^{*(7)}	320,000 ^{*(7)}	-	420,000 ^{*(7)}
Southern Steel Berhad ("SSB")	(1)	299,541,202	-	(7,371,493) ⁽¹³⁾	292,169,709
	(1)	141,627,296 ^{**}	-	(1,550,959) ^{**}	140,076,337 ^{**}
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	118,822,953	4,550,000	-	123,372,953
	(1)	20,000,000 ^{***(9)}	-	(20,000,000) ^{***(9)&(16)}	-
TPC Commercial Pte. Ltd. (formerly known as Belmeth Pte. Ltd.)	(2)	40,000,000	149,600,000	-	189,600,000
TPC Hotel Pte. Ltd. (formerly known as Guston Pte. Ltd.)	(2)	8,000,000	-	-	8,000,000

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

**Shareholdings in which Directors have deemed interests
Number of ordinary shares/preference shares/ordinary shares issued
or to be issued or acquired arising from the exercise of options*/
conversion of redeemable convertible unsecured loan stocks**
or redeemable convertible cumulative preference shares*****

	Nominal value per share RM (unless indicated)	As at 1/7/2016	Acquired	Sold	As at 30/6/2017
Interest of					
YBhg Tan Sri Quek Leng Chan in : (cont'd)					
Wallich Residence Pte. Ltd. (formerly known as Perfect Eagle Pte. Ltd.)	(2)	24,000,000	-	-	24,000,000
GLL Chengdu Pte Ltd	(2)	149,597,307 ⁽¹⁴⁾	-	-	149,597,307 ⁽¹⁵⁾
Beijing Minghua Property Development Co., Ltd (In members' voluntary liquidation)	(3)	150,000,000	-	-	150,000,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	3,150,000,000	-	-	3,150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	(4)	19,600,000	-	-	19,600,000
Lam Soon (Hong Kong) Limited	(6)	140,008,659	-	-	140,008,659
Guangzhou Lam Soon Food Products Limited	(5)	6,570,000	-	-	6,570,000

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

**Shareholdings in which Directors have deemed interests
Number of ordinary shares/preference shares/ordinary shares issued
or to be issued or acquired arising from the exercise of options*/
conversion of redeemable convertible unsecured loan stocks**
or redeemable convertible cumulative preference shares*****

	Nominal value per share RM (unless indicated)	As at <u>1/7/2016</u>	<u>Acquired</u>	<u>Sold</u>	As at <u>30/6/2017</u>
Interest of					
YBhg Tan Sri Quek Leng Chan in : (cont'd)					
GuocoLand (Malaysia) Berhad	(1)	455,698,596	376,200	(500,000) ⁽¹³⁾	455,574,796
Guoman Hotel & Resort Holdings Sdn Bhd	(1)	277,000,000	-	-	277,000,000
JB Parade Sdn Bhd	(1)	28,000,000	-	-	28,000,000
	(1)	68,594,000 ⁽⁸⁾	-	-	68,594,000 ⁽⁸⁾
Continental Estates Sdn Bhd	(1)	34,408,000	-	-	34,408,000
	(1)	123,502,605 ⁽⁸⁾	-	-	123,502,605 ⁽⁸⁾
GL Limited	USD0.20	933,073,825	4,258,300	(11,578,991) ⁽¹³⁾	925,753,134
		100,000 ^{*(7)}	-	-	100,000 ^{*(7)}
The Rank Group Plc	GBP13 ^{8/9} p	219,282,221	-	-	219,282,221

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Notes:

- (1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act, 2016
- (2) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
- (3) Capital contribution in RMB
- (4) Capital contribution in USD
- (5) Capital contribution in HKD
- (6) Concept of par value was abolished with effect from 3 March 2014 pursuant to the New Companies Ordinance (Chapter 622), Hong Kong
- (7) Inclusive of interest pursuant to Section 59(11)(c) of the Companies Act, 2016 in shares held by family member
- (8) Redeemable Preference Shares
- (9) The redeemable convertible cumulative preference shares ("RCCPS") are convertible into ordinary shares at the option of the holder of RCCPS on the basis of 400 ordinary shares for every RCCPS
- (10) Dissolved during the financial year
- (11) Transfer of free ordinary shares in HIB to the grant holders upon vesting
- (12) Interest pursuant to Section 59(11)(c) of the Companies Act, 2016 in shares held by family member
- (13) Cessation of deemed interest pursuant to Section 8(4) of the Companies Act, 2016
- (14) A wholly owned subsidiary
- (15) Became a non-wholly owned subsidiary during the financial year
- (16) Redemption of RCCPS

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefit (other than the benefits shown under Directors' Remuneration in Note 23(b) to the financial statement) by reason of a contract made by the Company or its related corporations 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 except for YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisitions and/or disposal of stocks and shares, stocks-in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or for the provision of services including but not limited to project and sales management and any other management and consultancy services; and/or for construction, development, leases, tenancy, licensing, dealership and distributorship; and/or for the provision of treasury functions, advances in the conduct of normal trading, banking, insurance, investment, stockbroking and/or other businesses between the Company or its related corporations and corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have interests.

Neither at the end of the financial year, nor at anytime during the financial year, did there subsist any other arrangements to which the Company is a party, with the object or objects of enabling the 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, other than the share options granted pursuant to the Executive Share Scheme.

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

EXECUTIVE SHARE OPTION SCHEME

Pursuant to the Employee Share Option Scheme (“ESOS”) established by the Company, the eligible executives of the Company are granted options to purchase ordinary shares of the Company’s penultimate holding company, HLFM.

ESOS 2013/2023

The ESOS options granted have performance and/or service based vesting conditions. Generally, the share options granted can be classified into 2 categories:

- (i) An award that is conditional upon achieving agreed key performance indicators and milestones; and/or
- (ii) An award for the recognition of material and positive accomplishments towards building a strong and sustainable underlying business value, preserving and enhancing the quality of assets and for shareholders wealth creation.

There were 13,200,000 options granted at an exercise price of RM16.88 under the ESOS 2013/2023 on 2 April 2015 which would expire on 11 March 2023.

In the event of a rights issue, adjustments (if any) may be made to the number of HLFM shares relating to an option or any portion thereof that is unexercised or the option price. On 6 November 2015, the options exercise price was adjusted to RM16.61 and additional options were granted due to the rights issue exercise.

During the financial year, the Company had recognised share-based compensation expense amounting to RM5,488,811 (2016: RM3,565,762).

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)

HOLDING COMPANIES

The immediate, penultimate and ultimate holding companies are HLA Holdings Sdn Bhd, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, all companies incorporated in Malaysia.

AUDITORS' REMUNERATION

The remuneration of the auditors' is set out in Note 23 to the financial statements.

AUDITORS

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

This report was approved by the Board of Directors on 19 September 2017. Signed on behalf of the Board of Directors.



.....
Tan Kong Khoon



.....
Dato' Siow Kim Lun @ Siow Kim Lin

Petaling Jaya
19 September 2017

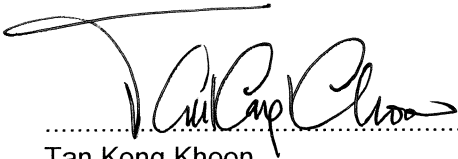
HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)
(Incorporated in Malaysia)

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

We, Tan Kong Khoon and Dato' Siow Kim Lun @ Siow Kim Lin, two of the Directors of **Hong Leong Assurance Berhad**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 43 to 152 are drawn up so as to give a true and fair view of the financial position of the Company as at 30 June 2017 and financial performance of the Company for the financial year ended 30 June 2017 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 19 September 2017.



.....
Tan Kong Khoon
Director



.....
Dato' Siow Kim Lun @ Siow Kim Lin
Director

Petaling Jaya
19 September 2017

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)
(Incorporated in Malaysia)

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

I, Ong Kheng Heng, the officer primarily responsible for the financial management of **Hong Leong Assurance Berhad**, do solemnly and sincerely declare that, the financial statements set out on pages 43 to 152 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the above named Ong Kheng Heng)
at Selangor Darul Ehsan)
this 19 September 2017)



Before me

Commissioner for Oath



No. 344 (Tkt 1), Jalan SS2/67
47300 Petaling Jaya
Selangor Darul Ehsan



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Hong Leong Assurance Berhad (“the Company”) give a true and fair view of the financial position of the Company as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 30 June 2017, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 43 to 152.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to read 'Riley', with a horizontal line extending to the right.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Manjit Singh', with a horizontal line extending to the right.

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2019 J
Chartered Accountant

Kuala Lumpur
19 September 2017

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Property, plant and equipment	3	87,532	87,458
Intangible assets	4	3,741	3,748
Investment properties	5	496,624	491,334
Financial assets	6	14,470,145	12,363,764
- Held-to-maturity financial assets	6(a)	611,211	611,384
- Available-for-sale financial assets	6(b)	10,348,635	8,671,708
- Fair value through profit or loss financial assets	6(c)	2,584,119	1,718,141
- Loans and receivables	6(d)	926,180	1,362,531
Derivative assets	7	5,520	8,673
Reinsurance assets	13	44,589	48,548
Insurance receivables	8	148,410	134,450
Other receivables	9	49,306	22,965
Non-current assets held-for-sale	10	60	60
Cash and cash equivalents		1,650,479	1,691,263
Total assets		16,956,406	14,852,263
Equity, policyholders' fund and liabilities			
Share capital	11	200,000	200,000
Reserves	12	1,372,089	1,238,646
Total equity		1,572,089	1,438,646
Insurance contract liabilities	13	12,104,694	10,574,190
Deferred tax liabilities	14	232,749	185,578
Tax payables		24,062	5,339
Insurance payables	15	2,257,435	1,900,569
Other payables	16	232,051	217,210
Derivative liabilities	7	25,954	23,659
Subordinated notes	17	507,372	507,072
Total policyholders' fund and liabilities		15,384,317	13,413,617
Total equity, policyholders' fund and liabilities		16,956,406	14,852,263

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

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

**STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

	Note	2017 RM'000	2016 RM'000
Gross earned premiums		3,013,245	2,786,620
Premiums ceded to reinsurers		(96,330)	(86,641)
Net earned premiums		<u>2,916,915</u>	<u>2,699,979</u>
Investment income	18	656,414	607,664
Realised gains	19	161,465	8,731
Fair value gains/(losses)	20	128,635	(14,405)
Fees and commission income	21	14,865	10,612
Other revenue		<u>961,379</u>	<u>612,602</u>
Gross benefits and claims paid		(1,499,550)	(1,387,812)
Claims ceded to reinsurers		61,294	54,132
Gross change to contract liabilities		(1,459,973)	(1,078,949)
Change in contract liabilities ceded to reinsurers		(721)	365
Net benefits and claims		<u>(2,898,950)</u>	<u>(2,412,264)</u>
Fees and commission expense		(446,514)	(415,218)
Management expenses	23	(178,154)	(155,085)
Other operating expenses-net	22	(25,479)	(119,908)
Other expenses		<u>(650,147)</u>	<u>(690,211)</u>
Finance cost		(22,677)	(22,739)
Surplus before taxation		306,520	187,367
Tax expense attributable to participating fund and unitholders		(54,483)	(24,719)
Profit before taxation attributable to shareholders		<u>252,037</u>	<u>162,648</u>
Taxation	24	(107,766)	(53,725)
Tax expense attributable to participating fund and unitholders		54,483	24,719
Taxation attributable to shareholders		(53,283)	(29,006)
Net profit for the financial year		<u>198,754</u>	<u>133,642</u>
Earnings per share (sen)	26	<u>99.38</u>	<u>66.82</u>

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

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

**STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

	Note	2017 RM'000	2016 RM'000
Net profit for the financial year		198,754	133,642
Other comprehensive income:			
<u>Items that may be subsequently reclassified to profit or loss</u>			
Fair value changes on available-for-sale financial assets, net of deferred tax:			
Gross fair value gains arising during the financial year		238,140	54,275
Gross fair value gains transferred to income statement		(137,943)	(39,785)
		<u>100,197</u>	<u>14,490</u>
Tax effects thereon	14	(12,877)	4,635
		<u>87,320</u>	<u>19,125</u>
Net fair value gains			
Change in insurance contract liabilities arising from net fair value losses		(65,631)	(42,613)
		<u>21,689</u>	<u>(23,488)</u>
Total comprehensive income for the financial year		<u><u>220,443</u></u>	<u><u>110,154</u></u>

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

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

	Note	Issued and fully paid ordinary shares		Reserves			Total RM'000
		No. of shares '000	Share capital RM'000	Non-distributable		Distributable	
				Fair value reserve RM'000	*Retained earnings RM'000	Retained earnings RM'000	
At 1 July 2015		200,000	200,000	71,424	685,113	371,955	1,328,492
Profit for the financial year		-	-	-	81,105	52,537	133,642
Other comprehensive income for the financial year		-	-	(23,488)	-	-	(23,488)
At 30 June 2016		<u>200,000</u>	<u>200,000</u>	<u>47,936</u>	<u>766,218</u>	<u>424,492</u>	<u>1,438,646</u>
At 1 July 2016		200,000	200,000	47,936	766,218	424,492	1,438,646
Profit for the financial year		-	-	-	91,589	107,165	198,754
Other comprehensive income for the financial year		-	-	21,689	-	-	21,689
Dividend paid during the financial year	25	-	-	-	-	(87,000)	(87,000)
At 30 June 2017		<u>200,000</u>	<u>200,000</u>	<u>69,625</u>	<u>857,807</u>	<u>444,657</u>	<u>1,572,089</u>

* 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.

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

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

	Note	2017 RM'000	2016 RM'000
Operating activities			
Net profit for the financial year		198,754	133,642
Adjustments for:			
Investment income recorded in income statement	18	(656,414)	(607,664)
Realised (gains)/losses recorded in income statement	19	(138,237)	36,024
Fair value (gains)/losses recorded in income statement	20	(128,635)	14,405
Foreign exchange gains		(13,677)	(834)
Proceeds from sale of fair value through profit or loss financial assets		964,552	664,620
Maturity of fair value through profit or loss financial assets		1,968	27,807
Purchase of fair value through profit or loss financial assets		(1,681,733)	(1,331,376)
Proceeds from sale of available-for-sale financial assets		1,932,294	1,329,646
Maturity of available-for-sale financial assets		263,900	664,700
Purchase of available-for-sale financial assets		(3,652,351)	(2,539,063)
Purchase of derivatives		(16,516)	(40,923)
Decrease/(increase) in loans and receivables		426,286	(499,692)
Finance costs		22,677	22,739
		<u>(2,675,886)</u>	<u>(2,259,611)</u>
Non-cash items:			
Depreciation of property, plant and equipment	3	5,460	5,092
Gains on disposal of property, plant and equipment	19	(199)	(757)
Amortisation of intangible assets	4	2,182	2,325
Impairment on available-for-sale financial assets		45,874	126,906
Tax expense		107,766	53,725
		<u>161,083</u>	<u>187,291</u>

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

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**

	Note	2017 RM'000	2016 RM'000
Changes in working capital:			
Decrease/(increase) in reinsurance assets		3,959	(3,315)
Increase in insurance receivables		(13,960)	(1,706)
(Increase)/decrease in other receivables		(27,695)	43,991
Increase in insurance contract liabilities		1,464,873	1,069,387
Increase in insurance payables		356,866	323,847
Increase in other payables		14,841	25,353
		<u>1,798,884</u>	<u>1,457,557</u>
Cash used in operating activities		(517,165)	(481,121)
Dividend income received		114,351	107,230
Interest income received		515,630	456,681
Rental income received		17,453	21,909
Income taxes paid		(54,130)	(60,822)
Net cash inflow from operating activities		<u>76,139</u>	<u>43,877</u>
Investing activities			
Proceeds from sale of property, plant and equipment		348	1,288
Purchase of property, plant and equipment	3	(7,649)	(4,951)
Purchase of intangible assets	4	(209)	(789)
Net cash outflow from investing activities		<u>(7,510)</u>	<u>(4,452)</u>
Financing activities			
Dividends paid		(87,000)	-
Interest paid on subordinated notes		(22,377)	(22,562)
Net cash outflow from financing activities		<u>(109,377)</u>	<u>(22,562)</u>
Effect of exchange rate changes on cash and cash equivalents		(36)	(1,015)
Net (decrease)/increase in cash and cash equivalents		(40,784)	15,848
Cash and cash equivalents at beginning of the financial year		<u>1,691,263</u>	<u>1,675,415</u>
Cash and cash equivalents at end of the financial year		<u><u>1,650,479</u></u>	<u><u>1,691,263</u></u>
Cash and cash equivalents comprise:			
Cash and bank balances		30,927	21,651
Fixed and call deposits with maturity of less than 3 months			
- Licensed financial institutions		<u>1,619,552</u>	<u>1,669,612</u>
		<u><u>1,650,479</u></u>	<u><u>1,691,263</u></u>

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

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1 . CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 3, Tower B, PJ City Development, No 15A, Jalan 219, Seksyen 51A, 46100 Petaling Jaya.

The immediate and ultimate holding companies are HLA Holdings Sdn Bhd and Hong Leong Company (Malaysia) Berhad respectively, both incorporated and domiciled in Malaysia.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 19 September 2017.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material to the financial statements.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

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 the liabilities 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 financial statements have been prepared under the historical cost convention, as modified by the revaluation if financial investments available-for-sale and financial assets/financial liabilities at fair value through profit or loss (including derivative financial instruments).

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 (m).

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company's financial year on or after 1 July 2016

- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- Amendments to MFRS 101 'Presentation of financial statements' - Disclosure Initiative
- Annual Improvements to MFRSs 2012-2014 Cycle

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2017

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

Financial year beginning on/after 1 July 2018

- 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 contractual 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.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2018 (cont'd)

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 statement of income, unless this creates an accounting mismatch.

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

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

- 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.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2018 (cont'd)

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

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2018 (cont'd)

- Amendments to MFRS 2 'Classification and Measurement of Share-based Payment Transactions' (effective from 1 January 2018). The amendments address the following:

Measurement of cash-settled awards

- The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity settled awards, where the impact of vesting and non-vesting conditions is considered.
- Specifically, market performance conditions and non-vesting conditions are reflected in the estimation of fair value of the cash-settled award, whilst non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest. This method differs from the concept of "fair value" in MFRS 13.

Classification of share-based payment awards with net settlement feature for withholding tax obligations

- The Amendments introduce an exception to the principles of MFRS 2 when an employer is obliged under the tax law to withhold some of the shares to which an employee is entitled under a share-based payment award and to remit the employee's tax obligation to the tax authority on behalf of the employee.
- The Amendments require an entity to account for awards with such a feature as equity settled share-based payment instead of dividing the award into 2 components; the tax portion as cash settled and the net amount of shares issued to the employee as equity settled.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2018 (cont'd)

Modification of cash-settled awards to equity-settled awards

- The amendments clarify that when an award is modified from cash-settled to equity-settled, the liability for the original award is derecognised, and the modified equity-settled award is recognised in equity to the extent of goods or services received at the modification date.
- The modified award is measured by reference to the fair value of the equity instruments on the modification date. The resultant difference is recognised in profit or loss.
- Amendments to MFRS 4 "Applying MFRS 9 'Financial Instruments' with MFRS 4 'Insurance Contracts'" (effective from 1 January 2018). The amendments allow entities to avoid temporary volatility in profit or loss ("P&L") that might result from adopting MFRS 9 'Financial Instruments' before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through P&L under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for entities:

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

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2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2019

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2021

- MFRS 17 'Insurance Contracts' replaces MFRS 4 'Insurance Contracts'.

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

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

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2021 (cont'd)

Alternative measurement models are provided for the different insurance coverages:

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

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

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

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 July 2016 are not relevant to the Company.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

(iii) Changes in regulatory requirements

Companies Act, 2016

The Companies Act, 2016 ("New Act") was enacted to replace the Companies Act, 1965 with the objective of creating a regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by Dewan Rakyat and on 29 April 2016 by Dewan Negara and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation (except Section 241 and Division 8 of Part III of the New Act) would be 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Company upon the commencement of the New Act on 31 January 2017 are:

- Removal of the authorised share capital;
- Shares of the Company will cease to have par or nominal value; and
- The company's capital redemption reserve will be part of the Company's share capital.

During the financial year, the Company does not have any transfer from its capital redemption reserve to the share capital pursuant to the new Act.

The adoption of the New Act does not have any financial impact on the Company for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on disclosures to the financial statements for the year ended 30 June 2017.

(b) Intangible assets

Computer software

Computer software licenses acquired separately are capitalised on the basis of the costs incurred to acquire and bring the asset for its intended use. These costs are amortised over their estimated useful lives which are estimated to be 5 years.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Intangible assets (cont'd)

Computer software (cont'd)

Costs that are directly associated with knowledge based software and computer applications which are unique to the requirements of the insurance business are recognised as intangible assets. These software and applications are expected to generate economic benefits beyond one year. Direct attributable costs include the software development employee costs and an appropriate portion of relevant overheads to prepare the asset for its intended use. These costs are recognised as assets and amortised over their useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when it is incurred.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the carrying amount of the assets 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 reliably estimated. All other repairs and maintenance are charged to the statement of income during the financial year which they are incurred.

Freehold land and capital work-in-progress are not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use. Depreciation of other property, plant and equipment is calculated to write off the cost of the assets to their residual values over the estimated useful lives, summarised as follows:

Leasehold land	Over the lease period
Leasehold buildings	Over the remaining period of the lease or 50 years, whichever is shorter
Freehold buildings	50 years
Furniture and fittings	10 years
Renovation, equipment and computers	5 - 10 years
Motor vehicles	5 years

The residual value and useful lives of assets are reviewed and adjusted if appropriate at each date of the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Property, plant and equipment and depreciation (cont'd)

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(h)(iii) to the financial statements on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "realised gains and losses" in the statement of income.

(d) Investment properties

Investment properties are properties which are held either for rentals or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs.

Investment properties are subsequently carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years. All gains or losses arising from a change in fair value of investment properties are recognised in the statement of income.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of income in the financial year in which they arise.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), financial assets available-for-sale ("AFS"), financial assets held-to-maturity ("HTM") and loans and receivables ("LAR"). Classification of the financial assets is determined at initial recognition and relates to the purpose for which the investments were acquired.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

Financial assets at FVTPL

Financial assets at FVTPL comprise held-for-trading financial assets and financial assets other than held-for-trading that are designated at fair value through profit or loss.

- a) Held-for-trading financial assets are financial assets that are acquired and held principally for the purpose of selling in the short term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. This includes derivatives that are not designated for hedges and all financial assets held in the investment-linked funds.
- b) Financial assets other than held-for-trading that are designated at fair value are classified as such if this eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets classified as FVTPL are subsequently measured at their fair values with the gain or loss recognised in the statement of income. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

AFS financial assets

AFS financial assets are non-derivative financial assets that are not classified in any of the other categories and are measured at fair value.

AFS financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Fair value gains or losses of those financial assets are reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired. Fair value gains or losses of AFS, net of income tax, are recognised directly in other comprehensive income, except for impairment losses. When these assets are sold or impaired, the accumulated fair value adjustments previously recognised in equity or policyholders' fund are included in the statement of income as net realised gains or losses.

HTM financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention or the ability to hold to maturity.

Financial assets categorised as held-to-maturity are subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

Loans and receivables

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at fair value plus all transaction costs directly attributable to the acquisition. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment.

Loans include policy loans and premium loans extended by the Company to its policyholders which are secured on the cash surrender value of the insurance policies.

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 receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in statement of income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(h)(ii) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(e)(iii) to the financial statements, are met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(h)(i) to the financial statements).

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

Financial liabilities

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

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

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at fair values with the gain or loss recognised in the statement of income.

(iii) Derecognition

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

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

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Fair value of financial instruments

The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate securities are based on indicative fair market prices/index by reference to the quotations provided by banks and brokers.

The fair values of quoted securities are based on current market prices. 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.

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

The fair value of structured deposits is based on the prices quoted by the issuing financial institution.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value i.e. the cost of the deposits/placements and accrued interest/profits. The fair value of fixed interest or yield-bearing deposits is measured at the face value or market value, whichever is lower.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Derivative financial instruments and hedging

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises profits immediately.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designated its derivatives as hedges of the fair value of recognised assets (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. The Company also documents their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment

(i) Financial assets, excluding insurance receivables

The Company assesses at each date of the statement of financial position whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss in respect of loans and other receivables and HTM financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income.

If, in a subsequent 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 by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

Financial assets carried at cost

If there is objective evidence that an impairment loss on financial assets carried at cost (e.g. equity instrument of which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment (cont'd)

(i) Financial assets, excluding insurance receivables (cont'd)

Financial assets carried at fair value

In the case of investments classified as AFS, a significant or prolonged decline in the fair value of the financial assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of income, is transferred from other comprehensive income and recognised in the statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income. Impairment losses previously recognised in the statement of income for equity instruments are not reversed through the statement of income.

(ii) Insurance receivables

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of income. 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 at each reporting date.

If, in a subsequent 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 in the statement of income.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment (cont'd)

(iii) 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 is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured where applicable, by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

The impairment loss is charged to the statement of income immediately. Any subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the statement of income immediately.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances and deposits held at call with financial institutions with maturities of three months or less.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Product classification

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Product classification (cont'd)

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

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

(k) Reinsurance

The Company cedes insurance risk in the normal course of business for 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 ceded reinsurance.

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

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) Life insurance underwriting results

The surplus transferable from the life fund to the statement of income is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders. In the event the actuarial valuation indicates that a transfer is required from the shareholders' fund, the transfer from the statement of income to the life insurance fund is made in the financial year of the actuarial valuation.

Gross premium

Premium income includes premium recognised in the life fund and the investment-linked fund.

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

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

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

Reinsurance premium

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

Commission and agency expenses

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

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) Life insurance underwriting results (cont'd)

Benefits, claims and expenses

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

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

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

- (a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- (b) 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.

Insurance contract liabilities

These liabilities comprise claims liabilities, actuarial liabilities, unallocated surpluses, AFS fair value reserves and net asset value attributable to unitholders.

(i) Actuarial liabilities

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

These liabilities are measured by a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed 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, non-participating annuity policies, the guaranteed benefits liabilities of participating life policies and participating annuity policies, and non-unit liabilities of investment-linked policies.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) Life insurance underwriting results (cont'd)

Insurance contract liabilities (cont'd)

(i) Actuarial liabilities (cont'd)

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 fund level.

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

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

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

(ii) Unallocated surplus

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

(iii) Fair value adjustment on AFS financial assets

Where unrealised gains or losses arise on AFS financial assets of DPF, the adjustment to the insurance contract liabilities, equals to the effect that the realisation of those gains or losses at the end of the reporting periods would have on those liabilities, is recognised directly in the other comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Valuation of insurance contract liabilities

The valuation of the insurance liability arising from policy benefits made under life insurance contracts is the Company's most critical accounting estimate. The assumptions in relation to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates are used for calculating the liabilities during the life of the contract. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. Actual experience is monitored to assess whether the assumptions remain appropriate and assumptions are changed as warranted. Any movement in the key assumptions will have an effect in determining the insurance contract liabilities.

The key assumptions used in the estimation of insurance contract liabilities are as follows:

(i) Interest rate

For the valuation of non-participating fund, non-participating annuity fund, the non-unit liabilities of the investment-linked funds and the guaranteed benefits liabilities of the participating fund and participating annuity fund, the Malaysian Government bond yields, as described below, are used.

- (a) For cash flows with duration less than 15 years, Malaysian Government Bond zero coupon spot yields of matching duration are used; and
- (b) For cash flows with duration 15 years or more, Malaysian Government Bond zero coupon spot yields of 15 years to maturity are used

where duration is the term to maturity of each future cash flow.

For the valuation of total benefits liabilities of the participating fund and par annuity fund, the net fund based yield is used. The fund based yields for both ordinary life participating fund and annuity fund are 6% (2016: 6.25%) and 5% (2016: 6.25%) per annum respectively. The liabilities for participating fund and par annuity fund are taken as the higher of total benefits liabilities valued using fund based yield and guaranteed benefits liabilities valued using MGS rates.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Valuation of insurance contract liabilities (cont'd)

(ii) Mortality, morbidity, critical illness, expenses, lapse and surrenders

The Company bases mortality and morbidity on established industry and Malaysian tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

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.

For the non-participating fund, non-participating annuity fund, the non-unit liabilities of the investment-linked funds and the guaranteed benefits liabilities of the participating fund and par annuity fund, Provision for Risk of Adverse Deviation ("PRAD") assumptions are added to the best estimates assumptions.

For the valuation of total benefit liabilities of the participating fund and par annuity fund, the best estimates assumptions are used.

Adjustments to the liabilities at each reporting date are recorded in the statement of income. The liability is derecognised when the contract expires, is discharged or is cancelled.

As the valuation methods used to value liabilities are in accordance with the RBC Framework for insurers, the Company is deemed to have complied with the requirements of a liability adequacy test under MFRS 4 Insurance Contracts.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Other income recognition

Interest income including the amount of amortisation of premiums and accretion of discounts, is recognised on a time proportion basis that takes into account the constant yield of the assets.

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

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

(o) Taxation

Taxation on the statement of income for the financial year comprises current and deferred tax. Current tax is the expected amount of tax payable in respect of the taxable income for the financial year, using tax rates enacted or substantially enacted at the date of the statement of financial position, and any adjustment to tax payable in respect of previous financial years.

Deferred taxation is provided in full using the liability method, on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, using tax rates enacted or substantially enacted at the date of the statement of financial position.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Foreign currencies

Functional and presentation currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statement are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial instruments available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income, and other changes in the carrying amount are recognised in equity or policyholders' fund.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets are recognised in income as part of the financial instruments fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity or policyholders' fund except for gain or loss attributable to the hedged risk (if the hedged item is an AFS financial asset) of a fair value hedge, which shall be recognised in the statement of income.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Dividends

Dividends on ordinary shares are accounted for in the shareholders' equity as an appropriation of retained earnings in the period in which they are declared.

(r) Assets held-for-sale and discontinued operations

Non-current assets are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amounts are recovered principally through a sale transaction rather than through continuing use.

(s) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions and other non-monetary benefits are recognised as expenses in the financial year in which the associated services are rendered by employees of the Company.

(ii) Equity compensation benefits

A trust has been set up for an executive share option scheme ("ESOS") by the penultimate holding company, Hong Leong Financial Group ("HLFG"), for the Hong Leong Assurance Berhad ESOS, administered by an appointed trustee. The Company from time to time provides financial assistance to the trustee, upon such terms and conditions as HLFG and the trustee had agreed, for the purchase of such number of HLFG shares to satisfy the exercise of the share option by eligible executives of the Company for which BNM approval had been obtained.

The Company accounts for ESOS transactions as cash-settled as it will provide its employees with HLFG shares. The fair value of the employee services rendered in exchange for the grant if the share options is recognised as an expense in the statement of income over the vesting period with a corresponding increase in liability, which is re-measured at each date of the statement of financial position.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. At each date of the statement of financial position, the Company revises its estimates of the number of share options that are expected to vest and recognises the impact of the revision of original estimates, if any, in the measurement, with a corresponding adjustment to liability.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Provisions

Provisions are recognised when the Company has a present legal constructive obligation as a result of past events. When it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

(u) 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 their existence where inflows of economic benefits are probable, but not virtually certain.

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NOTES TO THE FINANCIAL STATEMENTS**3. PROPERTY, PLANT AND EQUIPMENT**

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold	Leasehold	Freehold	Leasehold					
	RM'000	RM'000	RM'000	RM'000					
Cost									
At 1 July 2015	1,300	2,338	743	78,813	1,940	41,501	1,814	3,985	132,434
Additions	-	-	-	-	29	1,596	561	2,765	4,951
Disposal	-	(133)	-	(533)	-	-	(412)	-	(1,078)
At 30 June 2016	1,300	2,205	743	78,280	1,969	43,097	1,963	6,750	136,307
Additions	-	-	-	-	99	1,759	289	5,502	7,649
Disposal	-	-	-	-	-	-	(901)	-	(901)
Reclassification (Note 4)	-	-	-	-	-	2,042	-	(4,008)	(1,966)
At 30 June 2017	1,300	2,205	743	78,280	2,068	46,898	1,351	8,244	141,089

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NOTES TO THE FINANCIAL STATEMENTS**3 . PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	<u>Land</u>		<u>Buildings</u>		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold RM'000	Leasehold RM'000	Freehold RM'000	Leasehold RM'000					
Accumulated depreciation									
At 1 July 2015	-	597	82	10,692	1,503	30,228	1,202	-	44,304
Charge for the year	-	32	15	1,568	78	3,147	252	-	5,092
Disposal	-	(18)	-	(117)	-	-	(412)	-	(547)
At 30 June 2016	-	611	97	12,143	1,581	33,375	1,042	-	48,849
Charge for the year	-	31	15	1,565	80	3,440	329	-	5,460
Disposal	-	-	-	-	-	-	(752)	-	(752)
At 30 June 2017	-	642	112	13,708	1,661	36,815	619	-	53,557

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NOTES TO THE FINANCIAL STATEMENTS**3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	<u>Land</u>		<u>Buildings</u>		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold	Leasehold	Freehold	Leasehold					
	RM'000	RM'000	RM'000	RM'000					
Net carrying amount									
At 30 June 2016	<u>1,300</u>	<u>1,594</u>	<u>646</u>	<u>66,137</u>	<u>388</u>	<u>9,722</u>	<u>921</u>	<u>6,750</u>	<u>87,458</u>
At 30 June 2017	<u>1,300</u>	<u>1,563</u>	<u>631</u>	<u>64,572</u>	<u>407</u>	<u>10,083</u>	<u>732</u>	<u>8,244</u>	<u>87,532</u>

Included in property, plant and equipment are fully depreciated assets which are still in use as follows:

	<u>Land</u>		<u>Buildings</u>		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold	Leasehold	Freehold	Leasehold					
	RM'000	RM'000	RM'000	RM'000					
At cost									
At 30 June 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,178</u>	<u>18,899</u>	<u>429</u>	<u>-</u>	<u>20,506</u>
At 30 June 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,231</u>	<u>23,455</u>	<u>361</u>	<u>-</u>	<u>25,047</u>

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NOTES TO THE FINANCIAL STATEMENTS

4. INTANGIBLE ASSETS

	2017 RM'000	2016 RM'000
Cost		
At 1 July	67,268	66,479
Additions	209	789
Reclassification (Note 3)	1,966	-
At 30 June	<u>69,443</u>	<u>67,268</u>
Accumulated amortisation		
At 1 July	63,520	61,195
Amortisation	2,182	2,325
At 30 June	<u>65,702</u>	<u>63,520</u>
Net carrying amount	<u>3,741</u>	<u>3,748</u>

5. INVESTMENT PROPERTIES

	2017 RM'000	2016 RM'000
At 1 July	491,334	480,442
Fair value gain	5,290	10,892
At 30 June	<u>496,624</u>	<u>491,334</u>
The analysis of investment properties is as follows:		
Freehold land and building	494,594	489,394
Leasehold land and building	2,030	1,940
	<u>496,624</u>	<u>491,334</u>

The fair values of the investment properties were revalued by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd. Fair value changes are recorded in the income statement.

Recurring fair value measurements

The investment properties, which fair value is under Level 2 of the fair value hierarchy, is measured using comparison method. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as land area and location and time factor. The most significant input into this valuation approach is price per square foot.

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NOTES TO THE FINANCIAL STATEMENTS**6. FINANCIAL ASSETS**

	2017	2016
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	3,958,730	2,536,457
Corporate bonds	5,856,233	5,630,746
Equity securities	2,364,921	1,971,855
Unit trusts and real estate investment trusts	968,939	618,377
Policy loans and premium loans	584,546	614,679
Deposits with financial institutions	736,776	991,650
	<u>14,470,145</u>	<u>12,363,764</u>

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

	2017	2016
	RM'000	RM'000
HTM financial assets	611,211	611,384
AFS financial assets	10,348,635	8,671,708
FVTPL financial assets	2,584,119	1,718,141
Loans and receivables	926,180	1,362,531
	<u>14,470,145</u>	<u>12,363,764</u>

The following investments mature within 12 months:

AFS financial assets	1,045,711	312,461
FVTPL financial assets	45,688	1,912
Loans and receivables	926,180	1,362,531
	<u>2,017,579</u>	<u>1,676,904</u>

The following investments mature after 12 months:

HTM financial assets	611,211	611,384
AFS financial assets	9,302,924	8,359,247
FVTPL financial assets	2,538,431	1,716,229
	<u>12,452,566</u>	<u>10,686,860</u>

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NOTES TO THE FINANCIAL STATEMENTS**6. FINANCIAL ASSETS (CONT'D)****(a) HTM**

	2017	2016
	RM'000	RM'000
At amortised cost:		
Corporate bonds		
- Unquoted in Malaysia	611,211	611,384
	<u>611,211</u>	<u>611,384</u>
At fair value:		
Corporate bonds		
- Unquoted in Malaysia	626,197	629,948
	<u>626,197</u>	<u>629,948</u>

(b) AFS

	2017	2016
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	3,411,083	2,246,115
Corporate bonds		
- Unquoted in Malaysia	4,356,991	4,250,633
- Unquoted outside Malaysia	298,858	300,171
Equity securities		
- Quoted in Malaysia *	1,521,702	1,360,150
- Unquoted in Malaysia	2,147	2,147
- Quoted outside Malaysia	114,346	135,966
Unit trusts/ Real estate investment trusts ("REITS")		
- Quoted in Malaysia	634,568	350,105
- Quoted outside Malaysia	8,940	26,421
	<u>10,348,635</u>	<u>8,671,708</u>

* Includes Hong Leong Financial Group Berhad ("HLFG") ordinary shares held by AmTrustee Berhad for the ESOS scheme by HLFG as described in Note 2(s)(ii) to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS**6. FINANCIAL ASSETS (CONT'D)****(c) FVTPL**

	2017	2016
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	547,647	290,342
Corporate bonds		
- Unquoted in Malaysia	564,612	355,209
- Unquoted outside Malaysia	24,561	113,349
Equity securities		
- Quoted in Malaysia	693,650	454,122
- Quoted outside Malaysia	33,076	19,470
Unit trusts/ REITS		
- Quoted in Malaysia	325,431	238,405
- Quoted outside Malaysia	-	3,446
Fixed and call deposits		
- Licensed financial institutions	395,142	243,798
	<u>2,584,119</u>	<u>1,718,141</u>

(d) Loans and receivables

	2017	2016
	RM'000	RM'000
At cost:		
Fixed and call deposits		
- Licensed financial institutions	341,634	747,852
Policy loans	33,361	32,122
Premium loans	551,185	582,557
	<u>926,180</u>	<u>1,362,531</u>
At fair value:		
Fixed and call deposits		
- Licensed financial institutions	341,634	747,852
Policy loans	33,361	32,122
Premium loans	551,185	582,557
	<u>926,180</u>	<u>1,362,531</u>

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NOTES TO THE FINANCIAL STATEMENTS**6 . FINANCIAL ASSETS (CONT'D)****(e) Carrying value of financial instruments**

	HTM RM'000	AFS RM'000	FVTPL RM'000	LAR RM'000	Total RM'000
At 1 July 2015	611,502	8,192,985	1,144,080	849,127	10,797,694
Purchases	-	2,539,063	1,331,376	-	3,870,439
Maturities	-	(664,700)	(27,807)	-	(692,507)
Disposals	-	(1,289,861)	(699,506)	-	(1,989,367)
Fair value gains transferred to income statement	-	(39,785)	-	-	(39,785)
Fair value losses recorded in income statement (Note 20)	-	-	(33,393)	-	(33,393)
Fair value gains recorded in other comprehensive income	-	54,275	-	-	54,275
Movement in impairment allowance (Note 22)	-	(126,906)	-	-	(126,906)
Movement in LAR	-	-	-	499,692	499,692
Accretion of discount, net of amortisation of premium (Note 18)	(161)	547	-	-	386
Movement in accrued interest	43	4,241	3,391	13,712	21,387
Currency translation differences	-	1,849	-	-	1,849
At 30 June 2016	<u>611,384</u>	<u>8,671,708</u>	<u>1,718,141</u>	<u>1,362,531</u>	<u>12,363,764</u>

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NOTES TO THE FINANCIAL STATEMENTS**6 . FINANCIAL ASSETS (CONT'D)****(e) Carrying value of financial instruments (cont'd)**

	HTM RM'000	AFS RM'000	FVTPL RM'000	LAR RM'000	Total RM'000
At 1 July 2016	611,384	8,671,708	1,718,141	1,362,531	12,363,764
Purchases	-	3,652,351	1,681,733	-	5,334,084
Maturities	-	(263,900)	(1,968)	-	(265,868)
Disposals	-	(1,794,351)	(947,742)	-	(2,742,093)
Fair value gains transferred to income statement	-	(137,943)	-	-	(137,943)
Fair value gains recorded in income statement (Note 20)	-	-	128,793	-	128,793
Fair value gains recorded in other comprehensive income	-	238,140	-	-	238,140
Movement in impairment allowance (Note 22)	-	(45,874)	-	-	(45,874)
Movement in LAR	-	-	-	(426,286)	(426,286)
Accretion of discount, net of amortisation of premium (Note 18)	(130)	1,032	-	-	902
Movement in accrued interest	(43)	13,759	5,162	(10,065)	8,813
Currency translation differences	-	13,713	-	-	13,713
At 30 June 2017	<u>611,211</u>	<u>10,348,635</u>	<u>2,584,119</u>	<u>926,180</u>	<u>14,470,145</u>

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NOTES TO THE FINANCIAL STATEMENTS**7 . DERIVATIVE FINANCIAL INSTRUMENTS**

	2017	2016
	RM'000	RM'000
Derivative assets:		
- Forward foreign contracts - fair value hedge	5,520	8,673
	<u>5,520</u>	<u>8,673</u>
Derivative liabilities:		
- Forward foreign contracts - fair value hedge	25,954	23,659
	<u>25,954</u>	<u>23,659</u>

The notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2017 was RM397 million (2016: RM561 million).

All derivative assets are maturing after 12 months.

	2017	2016
	RM'000	RM'000
Derivative liabilities maturing within 12 months	1,339	198
Derivative liabilities maturing after 12 months	24,615	23,461
	<u>25,954</u>	<u>23,659</u>

8 . INSURANCE RECEIVABLES

	2017	2016
	RM'000	RM'000
Due premium including agents/brokers and reinsurers balances	149,211	135,195
Allowance for impairment	(801)	(745)
	<u>148,410</u>	<u>134,450</u>

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

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NOTES TO THE FINANCIAL STATEMENTS**8 . INSURANCE RECEIVABLES (CONT'D)**

	2017	2016
	RM'000	RM'000
Gross amounts of recognised financial assets	201,601	220,641
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	<u>(52,390)</u>	<u>(85,446)</u>
	149,211	135,195
Allowance for impairment	<u>(801)</u>	<u>(745)</u>
Net amounts of financial assets presented in the statement of financial position	<u><u>148,410</u></u>	<u><u>134,450</u></u>

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 30 June 2017 (2016: Nil).

9 . OTHER RECEIVABLES

	2017	2016
	RM'000	RM'000
Investment income receivables	4,374	5,728
Amount due from fund managers	5,870	1,405
Investment debtors	25,828	5,294
Other receivables	<u>13,234</u>	<u>10,538</u>
Total other receivables	<u><u>49,306</u></u>	<u><u>22,965</u></u>

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

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NOTES TO THE FINANCIAL STATEMENTS**10 . NON-CURRENT ASSETS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS HELD-FOR-SALE**

	2017 RM'000	2016 RM'000
Fair value		
At 1 July/30 June	60	60

Assets held-for-sale relate to an apartment for which Board approval was obtained in the financial year 2007 and the Company has entered into sale and purchase agreement to sell the said property. It is now in the midst of transferring ownership.

Non-recurring fair value measurements

The property, which fair value is under Level 2 of the fair value hierarchy, is based on buying price offered by buyer.

11 . SHARE CAPITAL

	2017		2016	
	No of shares '000	RM'000	No of shares '000	RM'000
Ordinary shares of RM1.00 each*				
Authorised:				
At 1 July/30 June	-	-	200,000	200,000
Issued and fully paid up:				
At 1 July/30 June	200,000	200,000	200,000	200,000

* The new Companies Act, 2016 ("New Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

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NOTES TO THE FINANCIAL STATEMENTS

12 . RESERVES

The Company may distribute single tier exempt dividend to its shareholders out of its distributable 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.

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.

Fair value reserves relates to the fair value changes of the AFS financial assets of the Company.

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NOTES TO THE FINANCIAL STATEMENTS**13. INSURANCE CONTRACT LIABILITIES**

The analysis of life insurance contract liabilities and the movements are as follows:

	Gross		Re-insurance		Net	
	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	97,048	92,148	(21,528)	(24,766)	75,520	67,382
Actuarial liabilities (Note 31)	9,754,008	8,600,052	(23,061)	(23,782)	9,730,947	8,576,270
Unallocated surplus	145,026	262,058	-	-	145,026	262,058
Fair value adjustment on AFS financial assets	311,408	245,777	-	-	311,408	245,777
Net asset value attributable to unitholders (Note 34)	1,797,204	1,374,155	-	-	1,797,204	1,374,155
Life insurance contract liabilities	<u>12,104,694</u>	<u>10,574,190</u>	<u>(44,589)</u>	<u>(48,548)</u>	<u>12,060,105</u>	<u>10,525,642</u>

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NOTES TO THE FINANCIAL STATEMENTS**13. INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2015	7,540,542	1,921,648	9,462,190	(8,494)	(36,739)	(45,233)	9,416,957
Change in non-economic assumptions and valuation methodology:							
Mortality and morbidity	-	6,523	6,523	-	(1,561)	(1,561)	4,962
Persistency	54,922	14,134	69,056	-	2,243	2,243	71,299
Expense	6,758	(2,464)	4,294	-	-	-	4,294
Others	(234,288)	4,519	(229,769)	-	38	38	(229,731)
Change in economic assumptions	5,579	13,330	18,909	-	(324)	(324)	18,585
Projected change for inforce policies at 30 June 2014	756,284	20,428	776,712	-	1,530	1,530	778,242
Experience variance	(7,999)	4,104	(3,895)	-	(362)	(362)	(4,257)
New business	107,288	43,694	150,982	-	(1,930)	(1,930)	149,052
Change in provision for outstanding claims	(15,573)	5,920	(9,653)	1,604	(4,553)	(2,949)	(12,602)
Change in net asset value attributable to unitholders	-	177,958	177,958	-	-	-	177,958
Change in fair value of AFS financial assets	42,613	-	42,613	-	-	-	42,613
Change in unallocated surplus	108,270	-	108,270	-	-	-	108,270
At 30 June 2016	8,364,396	2,209,794	10,574,190	(6,890)	(41,658)	(48,548)	10,525,642

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NOTES TO THE FINANCIAL STATEMENTS**13. INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2016	8,364,396	2,209,794	10,574,190	(6,890)	(41,658)	(48,548)	10,525,642
Change in non-economic assumptions and valuation methodology:							
Mortality and morbidity	(7,798)	2,269	(5,529)	-	-	-	(5,529)
Persistency	3,131	(31)	3,100	-	-	-	3,100
Expense	1,628	11,407	13,035	-	-	-	13,035
Others	(31,191)	1,827	(29,364)	-	843	843	(28,521)
Change in economic assumptions	121,013	(32,346)	88,667	-	428	428	89,095
Projected change for inforce policies at 30 June 2015	766,719	62,106	828,825	-	1,525	1,525	830,350
Experience variance	48,971	8,958	57,929	-	(451)	(451)	57,478
New business	107,680	61,108	168,788	-	(1,624)	(1,624)	167,164
Change in unprocessed unit reserves	-	28,505	28,505	-	-	-	28,505
Change in provision for outstanding claims	3,252	1,648	4,900	5,777	(2,539)	3,238	8,138
Change in net asset value attributable to unitholders	-	423,049	423,049	-	-	-	423,049
Change in fair value of AFS financial assets	65,631	-	65,631	-	-	-	65,631
Change in unallocated surplus	(117,032)	-	(117,032)	-	-	-	(117,032)
At 30 June 2017	9,326,400	2,778,294	12,104,694	(1,113)	(43,476)	(44,589)	12,060,105

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NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAX LIABILITIES**

	2017	2016
	RM'000	RM'000
At 1 July	(185,578)	(191,917)
Recognised in:		
Income statement (Note 24)	(34,294)	1,704
Other comprehensive income	(12,877)	4,635
At 30 June	<u>(232,749)</u>	<u>(185,578)</u>
Current	1,638	1,155
Non-current	<u>(234,387)</u>	<u>(186,733)</u>
	<u>(232,749)</u>	<u>(185,578)</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.

	2017	2016
	RM'000	RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	(238,312)	(194,425)
Deferred tax assets	5,563	8,847
	<u>(232,749)</u>	<u>(185,578)</u>

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NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAX LIABILITIES (CONT'D)**

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

Deferred tax liabilities

	Unallocated surplus RM'000	Investment properties RM'000	Financial assets RM'000	Total RM'000
At 1 July 2015	(150,391)	(5,358)	(40,811)	(196,560)
Recognised in:				
Income statement	(6,546)	(871)	4,917	(2,500)
Other comprehensive income	-	-	4,635	4,635
At 30 June 2016	<u>(156,937)</u>	<u>(6,229)</u>	<u>(31,259)</u>	<u>(194,425)</u>
At 1 July 2016	(156,937)	(6,229)	(31,259)	(194,425)
Recognised in:				
Income statement	(18,759)	(1,224)	(11,027)	(31,010)
Other comprehensive income	-	-	(12,877)	(12,877)
At 30 June 2017	<u>(175,696)</u>	<u>(7,453)</u>	<u>(55,163)</u>	<u>(238,312)</u>

Deferred tax assets

	Financial assets RM'000	Total RM'000
At 1 July 2015	4,643	4,643
Recognised in:		
Income statement	4,204	4,204
At 30 June 2016	<u>8,847</u>	<u>8,847</u>
At 1 July 2016	8,847	8,847
Recognised in:		
Income statement	(3,284)	(3,284)
At 30 June 2017	<u>5,563</u>	<u>5,563</u>

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NOTES TO THE FINANCIAL STATEMENTS**15 . INSURANCE PAYABLES**

	2017	2016
	RM'000	RM'000
Amount due to reinsurers and cedants	9,387	24,025
Amount due to agents	27,807	24,712
Amount due to insured	2,220,241	1,851,832
	<u>2,257,435</u>	<u>1,900,569</u>

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

	2017	2016
	RM'000	RM'000
Gross amounts of recognised financial liabilities	2,309,825	1,986,015
Less: Gross amounts of recognised financial assets set off in the statement of financial position	<u>(52,390)</u>	<u>(85,446)</u>
Net amounts of financial liabilities presented in the statement of financial position	<u>2,257,435</u>	<u>1,900,569</u>

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 30 June 2017 (2016: Nil).

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NOTES TO THE FINANCIAL STATEMENTS

16 . OTHER PAYABLES

	2017	2016
	RM'000	RM'000
Accruals*	208,978	170,234
Amount due to fund managers	-	6,163
Investment creditors	3,748	4,710
Rental deposits	7,051	8,737
Other payables	12,274	27,366
	<u>232,051</u>	<u>217,210</u>

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

* Includes provision for HLA ESOS Scheme of RM10,886,521 as at 30 June 2017 (2016: RM5,417,210).

The Board shall determine the number of Option Shares to be vested at the end of financial year 2017. Vesting of the Options to be completed in three (3) stages as follows:

- (a) 40% to be vested on the date of notification of entitlement for the vested Options;
- (b) 40% to be vested on the 13th month and
- (c) 20% to be vested on the 25th month.

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NOTES TO THE FINANCIAL STATEMENTS

17 . SUBORDINATED NOTES

	2017	2016
	RM'000	RM'000
RM500 million subordinated notes, at par	500,000	500,000
Add: interest payable	8,815	8,692
Less: unamortised incidental costs	(1,443)	(1,620)
	<u>507,372</u>	<u>507,072</u>
Payable within 12 months	8,815	8,692
Payable after 12 months	498,557	498,380
	<u>507,372</u>	<u>507,072</u>

The Subordinated Notes Programme ("Sub-Notes") was issued in financial year ended 30 June 2013 for a nominal value of RM500 million for a period of 12 years on a 12 non-callable 7 basis with a coupon rate of 4.5% per annum.

The Sub-Notes are classified as tier 2 capital under Risk-Based Capital Framework for Insurers.

The fair value of the Sub-Notes at 30 June 2017 amounted to RM489,402,476 (2016: RM488,681,020). The fair value is estimated based on discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.

18 . INVESTMENT INCOME

	2017	2016
	RM'000	RM'000
Interest income		
AFS financial assets	342,277	319,191
FVTPL financial assets	44,836	19,363
HTM financial assets	33,392	33,450
Fixed and call deposit	74,872	74,717
Policy loans and premium loans	29,066	31,347
Gross dividends		
AFS financial assets	93,448	72,391
FVTPL financial assets	20,708	35,173
Rental of properties	16,913	21,646
Accretion of discount, net of amortisation of premium		
AFS financial assets (Note 6(e))	1,032	547
HTM financial assets (Note 6(e))	(130)	(161)
	<u>656,414</u>	<u>607,664</u>

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NOTES TO THE FINANCIAL STATEMENTS**19 . REALISED GAINS AND LOSSES**

	2017	2016
	RM'000	RM'000
Property, plant and equipment		
Realised gains	199	757
Derivatives		
Realised losses	(16,516)	(40,923)
Foreign exchange		
Realised gains	23,029	43,998
AFS financial assets		
Realised gains:		
Equity securities		
- quoted in Malaysia	120,671	71,790
- quoted outside Malaysia	17,019	3,577
Unit trusts/ Reits		
- quoted in Malaysia	1,184	443
- quoted outside Malaysia	2,220	-
Corporate bonds		
- unquoted in Malaysia	6,295	1,560
- unquoted outside Malaysia	868	4,149
Realised losses:		
Equity securities		
- quoted in Malaysia	(9,292)	(24,466)
- quoted outside Malaysia	(746)	(15,977)
Unit trusts/ Reits		
- quoted in Malaysia	(83)	(12)
Corporate bonds		
- unquoted in Malaysia	(193)	(438)
- unquoted outside Malaysia	-	(841)
	<u>137,943</u>	<u>39,785</u>

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NOTES TO THE FINANCIAL STATEMENTS**19 . REALISED GAINS AND LOSSES (CONT'D)**

	2017	2016
	RM'000	RM'000
FVTPL financial assets		
Realised gains:		
Equity securities		
- quoted in Malaysia	32,575	26,865
- quoted outside Malaysia	1,720	12,097
Unit trusts/ Reits		
- quoted in Malaysia	5,060	725
Corporate bonds		
- unquoted in Malaysia	1,871	1,918
- unquoted outside Malaysia	5,776	2,369
Negotiable instrument of deposit		
- in Malaysia	1,263	2,115
Structured investments		
- in Malaysia	-	105
Realised losses:		
Equity securities		
- quoted in Malaysia	(22,971)	(57,224)
- quoted outside Malaysia	(1,301)	(22,524)
Unit trusts/ Reits		
- quoted in Malaysia	(269)	(323)
- quoted outside Malaysia	(752)	-
Corporate bonds		
- unquoted in Malaysia	(4,098)	(1,007)
- unquoted outside Malaysia	(825)	-
Negotiable instrument of deposit		
- in Malaysia	(1,239)	(2)
	<u>16,810</u>	<u>(34,886)</u>
Net realised gains	<u>161,465</u>	<u>8,731</u>

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NOTES TO THE FINANCIAL STATEMENTS**20 . FAIR VALUE GAINS AND LOSSES**

	2017	2016
	RM'000	RM'000
Fair value gains/(losses):		
Investment properties (Note 5)	5,290	10,892
Derivatives	(5,448)	8,096
FVTPL financial assets (Note 6(e))	128,793	(33,393)
	<u>128,635</u>	<u>(14,405)</u>

21 . FEES AND COMMISSION INCOME

	2017	2016
	RM'000	RM'000
Policyholder administration and investment management service	6,255	4,494
Reinsurance commission income	8,610	6,118
	<u>14,865</u>	<u>10,612</u>

22 . OTHER OPERATING INCOME/(EXPENSES)-NET

	2017	2016
	RM'000	RM'000
Impairment on AFS financial assets (Note 6(e))	(45,874)	(126,906)
Unrealised foreign exchange gains	13,677	834
Other operating income	6,718	6,164
Other expenses	<u>(25,479)</u>	<u>(119,908)</u>

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NOTES TO THE FINANCIAL STATEMENTS**23 . MANAGEMENT EXPENSES**

	2017	2016
	RM'000	RM'000
Employee benefits expense (Note 23(a))	92,100	75,972
Directors' fees (Note 23(b))	482	431
Auditors' remuneration* :		
Audit related services	417	392
Non-audit related services	220	28
Depreciation of property, plant and equipment (Note 3)	5,460	5,092
Amortisation of intangible assets (Note 4)	2,182	2,325
Bad debts written back	(4)	-
Allowance/(Write back) for impairment	56	(51)
Rental of offices	6,568	6,401
Entertainment and travelling	1,707	1,688
EDP expenses	7,676	7,597
Other expenses	61,290	55,210
	<u>178,154</u>	<u>155,085</u>

* There was no indemnity given or insurance effected for the auditors of the Company during the financial year.

(a) Employee benefits expense

	2017	2016
	RM'000	RM'000
Wages, salaries and bonuses	72,148	59,881
Defined contribution retirement plan	11,178	9,279
Other employee benefits	8,774	6,812
	<u>92,100</u>	<u>75,972</u>

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NOTES TO THE FINANCIAL STATEMENTS**23 . MANAGEMENT EXPENSES (CONT'D)****(b) Directors' remuneration**

The total remuneration of the Chief Executive Officer and Directors are as follows:

	2017	2016
	RM'000	RM'000
Chief Executive Officer/executive director:		
Loh Guat Lan:		
-Wages, salaries and bonuses	3,195	3,532
-Defined contribution retirement plan	511	565
-Other employee benefits	20	16
	<u>3,726</u>	<u>4,113</u>
Non-executive directors:		
YBhg Dato' Chua Chuan Lim @ Chua Chuan Teong	-	47
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	137	138
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	130	130
YBhg Datin Ngiam Pick Ngoh	125	112
Shalet Marian	90	4
	<u>482</u>	<u>431</u>
	<u>4,208</u>	<u>4,544</u>

The remuneration including benefits-in-kind, attributable to the Company's Chief Executive Officer during the financial year amounted to RM3,999,934 (2016: RM4,156,618).

Non-executive directors only received director's fees as remuneration.

During the financial year, Directors and Officers of the Company are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Company subject to the terms of the policy. The total amount of premium for the Directors' & Officers' Liability Insurance was paid by the Group.

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NOTES TO THE FINANCIAL STATEMENTS**24 . TAXATION**

	Attributable to participating fund and unitholders RM'000	Attributable to shareholders' fund RM'000	Total RM'000
2017			
Current income tax:			
Current financial year	42,073	32,474	74,547
Over provision in prior years	(1,054)	(21)	(1,075)
	<u>41,019</u>	<u>32,453</u>	<u>73,472</u>
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	13,464	20,830	34,294
	<u>54,483</u>	<u>53,283</u>	<u>107,766</u>
2016			
Current income tax:			
Current financial year	29,885	24,703	54,588
Under provision in prior years	141	700	841
	<u>30,026</u>	<u>25,403</u>	<u>55,429</u>
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	(5,307)	3,603	(1,704)
	<u>24,719</u>	<u>29,006</u>	<u>53,725</u>

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NOTES TO THE FINANCIAL STATEMENTS

24 . TAXATION (CONT'D)

The income tax for the Shareholders' fund is calculated based on the tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year. The income tax for the life fund is calculated based on the tax rate of 8% (2016: 8%) of the assessable investment income net of allowable deductions for the financial year. The taxes of the respective funds are disclosed in Note 34 to the financial statements.

In 2008, the Ministry of Finance has gazetted an order on the allowance of income tax set-off/credit for the tax charged on the surplus transferred from the Life fund to the Shareholders' fund with effect from year of assessment 2008 under Section 110B of the Income Tax Act, 1967.

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

	2017	2016
	RM'000	RM'000
Profit before taxation attributable to shareholders	<u>252,037</u>	<u>162,648</u>
Taxation at Malaysian statutory tax rate of 24%	60,489	39,036
Tax effects in respect of:		
Income not subject to tax	(17,579)	(19,234)
Expenses not deductible for tax purpose	16,930	22,095
Tax rate differential in respect of unallocated surplus	-	(8,832)
S110B tax relief	(6,536)	(4,759)
(Over)/under provision in prior years	(21)	700
Tax expense attributable to participating fund and unitholders	<u>54,483</u>	<u>24,719</u>
Tax expense for the financial year	<u><u>107,766</u></u>	<u><u>53,725</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

25 . DIVIDENDS

The amount of dividend declared and paid by the Company since the end of the previous financial year was as follows:

	2017	2016
	RM'000	RM'000
In respect of the financial year ended 30 June 2016:		
- Single-tier dividend of 43.5 sen per share	<u>87,000</u>	<u>-</u>

As at the date of the financial statements, the Directors have not recommended any final dividend to be paid for the financial year under review.

26 . EARNINGS PER SHARE

The basic earnings per share are calculated based on the profit for the financial year after taxation as stated below divided by the weighted average number of 200,000,000 (2016: 200,000,000) ordinary shares in issue during the financial year.

	2017	2016
	RM'000	RM'000
Net profit for the financial year	<u>198,754</u>	<u>133,642</u>

27 . CAPITAL COMMITMENTS

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

	2017	2016
	RM'000	RM'000
Authorised and contracted for:		
Property and equipment	2,709	3,006
Intangible assets	1,696	2,300
	<u>4,405</u>	<u>5,306</u>

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NOTES TO THE FINANCIAL STATEMENTS

28 . RELATED PARTY DISCLOSURES

(a) Related parties and relationships

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

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad ("HLCM")	Ultimate holding company
HLCM Capital Sdn Bhd, Hong Leong Share Registration Services Sdn Bhd, HL Management Co Sdn Bhd and Guoline Capital Assets Limited ("HLCM Capital Group")	Subsidiary companies of ultimate holding company
Malaysian Pacific Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("MPI Group")	Subsidiaries and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("GLM Group")	Subsidiaries and associated companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiaries and associated companies of ultimate holding company
Hong Leong Industries Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("HLI Group")	Subsidiaries and associated companies of ultimate holding company
Hume Industries Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("Hume Group")	Subsidiaries and associated companies of ultimate holding company

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NOTES TO THE FINANCIAL STATEMENTS

28 . RELATED PARTY DISCLOSURES (CONT'D)

(a) Related parties and relationships (cont'd)

The related parties of, and their relationships with the Company are as follows: (cont'd)

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Financial Group Berhad ("HLFG")	Penultimate holding company
Subsidiaries and associated companies of HLFG as disclosed in its financial statements ("HLFG Group")	Subsidiaries and associated companies of penultimate holding company
HLA Holdings Sdn Bhd ("HLAH")	Immediate holding company
Subsidiaries companies of HLAH as disclosed in its financial statements ("HLAH Group")	Subsidiary companies of holding company
MSIG Insurance (Malaysia) Bhd	Associated company of holding company
Key Management Personnel	The key management personnel of the Company consists of: - All Directors of the Company - Key management personnel of the Company who make certain critical decisions in relation to the strategic direction of the Company
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances**

In additional to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year:

	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties * RM'000
2017			
Assets			
Receivables	-	10	595
Short term placements and fixed deposits	-	-	34
Cash and cash equivalents	-	-	913,598
	<u>-</u>	<u>10</u>	<u>914,227</u>
Liabilities			
Payables	<u>2</u>	<u>209</u>	<u>6,167</u>
2016			
Assets			
Receivables	-	103	2,208
Short term placements and fixed deposits	-	-	33
Cash and cash equivalents	-	-	495,736
	<u>-</u>	<u>103</u>	<u>497,977</u>
Liabilities			
Payables	<u>11</u>	<u>209</u>	<u>6,308</u>

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties * RM'000
2017			
Income			
Gross premium received/receivable	56	61	14,536
Management and professional fee income	-	-	1,625
Rental income	1,637	834	22,828
Service support fees	-	-	1,503
Interest income	-	3,900	42,948
Others	-	-	188
	<u>1,693</u>	<u>4,795</u>	<u>83,628</u>
Expenditure			
Gross premium paid	-	-	(291)
Commission paid/payable	-	-	(15,005)
Management and professional fee paid/payable	(480)	(923)	(1,966)
Authorised depository fee	-	-	(81)
Brokerage fee	-	-	(1,790)
Credit card merchant fees	-	-	(17,775)
Security guard services	-	-	(1,064)
Service support fees paid	-	-	(3,050)
Rental expenses	-	-	(593)
Logo fees	-	-	(15)
	<u>(480)</u>	<u>(923)</u>	<u>(41,630)</u>

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties * RM'000
2016			
Income			
Gross premium received/receivable	141	94	6,147
Management and professional fee income	-	-	1,213
Rental income	1,691	834	24,694
Interest income	-	3,641	48,074
	<u>1,832</u>	<u>4,569</u>	<u>80,128</u>
Expenditure			
Commission paid/payable	-	-	(13,787)
Management and professional fee paid/payable	(480)	(1,676)	(1,922)
Authorised depository fee	-	-	(105)
Brokerage fee	-	-	(990)
Credit card merchant fees	-	-	(17,457)
Security guard services	-	-	(1,298)
Rental and deposit paid	-	-	(594)
Service support fees	-	-	(2,890)
Logo fees	-	-	(14)
	<u>(480)</u>	<u>(1,676)</u>	<u>(39,057)</u>

*The significant related party transactions and balances with the immediate holding company are reported under other related parties.

The above transactions are transacted in the normal course of business of the Company based on agreed terms and conditions.

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(c) Compensation of key management personnel**

The remuneration of Directors and other members of key management during the financial year was as follows:

	2017	2016
	RM'000	RM'000
Wages, salaries and bonuses	10,953	11,567
Defined contribution retirement plan	1,763	1,788
Other employee benefits	954	711
Directors' fees	482	431
	<u>14,152</u>	<u>14,497</u>
Included in the total key management personnel are:		
Directors' remuneration (Note 23(b))	<u>4,208</u>	<u>4,544</u>

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NOTES TO THE FINANCIAL STATEMENTS

29 . RISK MANAGEMENT FRAMEWORK

The Company's risk management framework is based on the Enterprise Risk Management ("ERM") approach. The ERM Framework provides a systematic approach to identifying, evaluating, monitoring and reporting significant risks. Significant risks include market, credit, insurance, operational, compliance and IT risks amongst others.

The ERM Framework also fosters an operating environment that:

- (i) Manages the Company's risk exposure to potential earnings and capital volatility; and
- (ii) Optimises stakeholder (i.e. policyholders, shareholders, regulators, etc.) value.

Thus, the Company is able to measure and manage the portfolio of risks in a harmonised, consistent and holistic manner with a better understanding on the relationship among capital, risk and return measures.

Risk Management and Compliance ("RMC") keeps the Senior Management and Board of Audit and Risk Management Committee ("BARMC") abreast of developments in the Company's capital adequacy and risk profiles alongside new, emerging and significant risks that require attention and/or action plans.

Capital Management

The Capital Management Plan, which is approved by the Board of Directors, outlines the risk policies and strategies for the senior management to take proactive steps to conserve or consolidate the capital position.

The Company performs stress testing annually as a proactive measure in monitoring and managing the capital position. Stress testing is performed based on single risk factors with a correlation matrix to aggregate all the single risk factors. The stress test results will be presented at the BARMC meeting and communicated to the Board of Directors ("BOD").

Risk Governance Structure

The Company adopts the Three Lines of Defence model as a means to ensure good and effective governance structure is in place.

- (a) First line of defence: Under the leadership of the Chief Executive Officer, all operating and business units are responsible and accountable for the effective and timely implementation of action plans. The monthly Executive Committee ("EXCO") meetings foster the growth of a robust risk culture via open and regular communication among relevant parties.
- (b) Second line of defence: RMC, a risk oversight department, is tasked not only to formulate and continuously improve upon the Risk Management Framework but to also promote risk awareness amongst senior management and/or line managers via regular meetings.

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29 . RISK MANAGEMENT FRAMEWORK (CONT'D)

- (c) Third line of defence: Internal Auditors perform independent and regular reviews on the Company's internal control systems and Risk Management Framework.

30 . REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at the date of the statement of financial position, consisting of all funds as prescribed under the RBC Framework is provided below:

	2017	2016
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up) (Note 11)	200,000	200,000
- Reserves	3,461,839	3,195,157
Eligible Tier 2 capital		
- Eligible reserves	883,823	797,163
	<u>4,545,662</u>	<u>4,192,320</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended 2017 and 2016.

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NOTES TO THE FINANCIAL STATEMENTS**31 . INSURANCE RISK**

Insurance risk refers to the fluctuations in the timing, frequency and severity of the insured event, relative to the expectations of the Company at the time of underwriting.

The principal risk that the Company is facing is the uncertainty over the benefit payments which may cause the valuation of the life insurance liabilities to be insufficient.

The Company has in place policies in managing insurance risk. These include monitoring of actual experience and using reinsurance to limit net losses potential.

The concentration of life insurance liabilities by types of contracts is as follows:

	Gross			Reinsurance			Net of reinsurance		
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	With DPF	Without DPF	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017									
Whole Life	2,171,016	201,190	2,372,206	-	-	-	2,171,016	201,190	2,372,206
Endowment	2,818,531	179,397	2,997,928	-	-	-	2,818,531	179,397	2,997,928
Term	1,216,544	425,562	1,642,106	-	(23,061)	(23,061)	1,216,544	402,501	1,619,045
Accident and health	9,655	39,046	48,701	-	-	-	9,655	39,046	48,701
Annuity	400,732	1,745	402,477	-	-	-	400,732	1,745	402,477
Others	2,203,262	87,328	2,290,590	-	-	-	2,203,262	87,328	2,290,590
	8,819,740	934,268	9,754,008	-	(23,061)	(23,061)	8,819,740	911,207	9,730,947

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NOTES TO THE FINANCIAL STATEMENTS**31 . INSURANCE RISK (CONT'D)**

The concentration of life insurance liabilities by types of contracts is as follows (cont'd):

	Gross			Reinsurance			Net of reinsurance		
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	With DPF	Without DPF	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016									
Whole Life	1,982,761	175,401	2,158,162	-	-	-	1,982,761	175,401	2,158,162
Endowment	2,379,707	134,653	2,514,360	-	-	-	2,379,707	134,653	2,514,360
Term	1,266,653	423,729	1,690,382	-	(23,782)	(23,782)	1,266,653	399,947	1,666,600
Accident and health	9,643	30,309	39,952	-	-	-	9,643	30,309	39,952
Annuity	372,515	1,061	373,576	-	-	-	372,515	1,061	373,576
Others	1,798,308	25,312	1,823,620	-	-	-	1,798,308	25,312	1,823,620
	7,809,587	790,465	8,600,052	-	(23,782)	(23,782)	7,809,587	766,683	8,576,270

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

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NOTES TO THE FINANCIAL STATEMENTS

31 . INSURANCE RISK (CONT'D)

Key assumptions

The valuation of life insurance liabilities is based on actuarial valuation method and assumptions pursuant to the requirements stated in document "Risk-Based Capital Framework for Insurers" issued by Bank Negara Malaysia in April 2007 and revised in May 2017.

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

- Mortality rates

Mortality refers to the rates at which death occurs. Typically, mortality assumptions are based on the Company's own experience as well as the industry experience for the past few years. Mortality rates could impact on the Company's financial condition if it turns out to be more adverse than assumed.

- Morbidity rates

Morbidity refers to incidence rate of sickness. Typically, morbidity assumptions are based on the reinsurer's rates, adjusted to reflect the Company's own experience. Morbidity rates could impact on the Company's financial condition if it turns out to be more adverse than assumed.

- Discount rates

Insurance liabilities are discounted using discount rates in accordance to the Risk-Based Capital Framework for Insurers in order to determine the value of liabilities as of today. The Risk-Based Capital Framework requires all insurers to use the Malaysian government securities yields as risk free rates. Discount rates could impact on the Company's financial condition if it turns out to be lower than assumed.

- Lapse rates

Lapse rates refer to the rate of termination and surrender of insurance contract. Typically, lapse rates are based on the Company's actual experience for the past few years. Lapse rates could impact on the Company's financial condition if it turns out to be more adverse than assumed.

- Expense assumption

Insurance liabilities provide for future expenses by setting expense assumption based on the Company's recent experience. Higher than assumed expenses could impact adversely on the Company's financial condition.

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NOTES TO THE FINANCIAL STATEMENTS

31 . INSURANCE RISK (CONT'D)

Sensitivities

Sensitivity analysis provides an assessment of plausible adverse events that could impact on the financial condition of the Company. It enhances the understanding of the financial vulnerability towards insurance risk.

The analysis below is performed for reasonably possible movement in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact due to change in assumption, assumption was 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 assumption.

Sensitivity analysis produced is based on parameters set out as follows:

	Change in assumption	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity
	%	RM'000	RM'000	RM'000	RM'000
2017					
Mortality and morbidity	+ 10	95,001	78,247	(56,803)	(47,146)
Mortality and morbidity	- 10	(89,080)	(72,282)	50,667	42,054
Discount rate	- 0.5	292,498	291,676	(67,185)	(55,763)
Expenses	+ 10	34,008	34,008	(17,395)	(14,438)
Lapse and surrender	+ 10	(23,673)	(23,151)	(11,979)	(9,943)
Lapse and surrender	- 10	23,819	23,278	14,096	11,700
2016					
Mortality and morbidity	+ 10	91,081	74,231	(49,574)	(41,146)
Mortality and morbidity	- 10	(87,616)	(70,720)	45,604	37,851
Discount rate	- 0.5	285,733	284,882	(67,427)	(55,964)
Expenses	+ 10	28,080	28,080	(16,466)	(13,667)
Lapse and surrender	+ 10	(16,641)	(16,068)	(11,000)	(9,130)
Lapse and surrender	- 10	16,242	15,657	13,045	10,827

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

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS

The Board of Directors is responsible for formulating policies and overseeing those risks associated with the financial instruments described below.

The responsibility for formulation, establishment and approval of investment policies rests with the Board of Directors as reported in the corporate governance framework in the Directors' Report. The deployment and execution of the investment policies is delegated to the Investment Committee ("IC") in which the members are appointed by the Board of Directors.

The IC monitors scope of HLA's investments and establishes proper investment policies and guidelines that reflect the HLA's business objective, strategies and risk appetite.

Risk limits are in place at various levels and are monitored by a risk manager to ensure compliance with the Company's investment principles and philosophy. Sensitivity and stress tests are carried out on a regular basis to assess the resilience of the investment portfolios and the impact on the Company's solvency.

The Company's asset and liability management ("ALM") model is deployed to address the extent of mismatch of assets and liabilities. The ALM model will enable management to assess the long term impact of the investment strategy, asset mix and product pricing strategy on the Company's ability to meet its future obligations.

(a) Credit risk

Credit risk is the risk of loss due to inability or unwillingness of a counterparty to service its debt obligations. The credit risk and investment activities are monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity, in accordance with the investment guidelines and limits approved by the Board of Directors and the authorities.

At the date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board of Directors and the authorities. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

There were no significant changes to the credit risk management of the Company.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Credit exposure by credit rating**

The below tabulation provides the breakdown of the Company's financial assets (excluding financial assets classified as non-current assets held-for-sale) in relation to credit risk exposure:

	Neither past-due nor impaired				Not subject to credit risk	Past-due but not impaired	Total
	Investment grade						
	AAA to AA	A	BBB to BB	Not rated			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
HTM financial assets	375,317	-	-	235,894	-	-	611,211
AFS financial assets	4,094,601	335,660	172,586	3,464,085	2,281,703	-	10,348,635
FVTPL financial assets	931,739	28,017	24,560	547,646	1,052,157	-	2,584,119
Loan and receivables	324,262	-	-	601,918	-	-	926,180
Derivatives	5,520	-	-	-	-	-	5,520
Reinsurance assets	6,867	-	-	37,722	-	-	44,589
Insurance receivables	4,252	-	-	137,939	-	6,219	148,410
Other receivables *	-	-	-	45,389	-	-	45,389
Cash and cash equivalents	1,650,298	-	-	181	-	-	1,650,479
	7,392,856	363,677	197,146	5,070,774	3,333,860	6,219	16,364,532

* Other receivables as at 30 June 2017 excluded prepayment, GST recoverable & deposit of RM3,916,874.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Credit exposure by credit rating (cont'd)**

The below tabulation provides the breakdown of the Company's financial assets (excluding financial assets classified as non-current assets held-for-sale) in relation to credit risk exposure: (cont'd)

	Neither past-due nor impaired				Not subject to credit risk	Past-due but not impaired	Total
	Investment grade						
	AAA to AA	A	BBB	Not rated			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016							
HTM financial assests	375,490	-	-	235,894	-	-	611,384
AFS financial assets	3,987,455	333,033	178,617	2,297,814	1,874,789	-	8,671,708
FVTPL financial assets	571,022	27,984	113,349	290,343	715,443	-	1,718,141
Loan and receivables	731,124	-	-	631,407	-	-	1,362,531
Derivatives	8,673	-	-	-	-	-	8,673
Reinsurance assets	2,015	-	-	46,533	-	-	48,548
Insurance receivables	8,320	-	-	122,000	-	4,130	134,450
Other receivables *	-	-	-	19,690	-	-	19,690
Cash and cash equivalents	1,691,110	-	-	153	-	-	1,691,263
	7,375,209	361,017	291,966	3,643,834	2,590,232	4,130	14,266,388

* Other receivables as at 30 June 2016 excluded prepayment, GST recoverable & deposit of RM3,274,524.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)**

Aging analysis of financial assets past-due but not impaired:

	2017	2016
	RM'000	RM'000
Insurance receivables		
31 to 60 days	3,769	1,258
61 to 90 days	978	2,340
> 90 days	1,472	532
	<u>6,219</u>	<u>4,130</u>

Impaired financial assets

At 30 June 2017, there are impaired insurance receivables of RM801,265 (2016: RM745,735) and impaired AFS financial assets of RM142,209,995 (2016: RM170,514,045). Impairment of insurance receivables is performed based on individual assessment of receivables where the contractual payments are in arrears for more than 90 days. No collateral is held as security for any past due or impaired assets. The AFS financial assets that are subject to impairment are rigorously assessed as explained under Note 2(h)(i) to the financial statements. The Company records impairment allowance for insurance receivables and AFS financial assets in separate allowance accounts.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Impaired financial assets (cont'd)**

A reconciliation of the allowance for impairment losses for insurance receivables and AFS financial assets is as follows:

	Insurance receivables		AFS financial assets		Total	
	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July	745	796	170,514	112,690	171,259	113,486
Charge/(Write back) for the financial year	56	(51)	45,874	126,906	45,930	126,855
Realised for the financial year	-	-	(74,178)	(69,082)	(74,178)	(69,082)
At 30 June	801	745	142,210	170,514	143,011	171,259

(b) Liquidity risk

Liquidity risk arises due to inability of the Company to meet its financial obligations as and when they fall due. The Company manages liquidity risk via short term cash flow projection to determine net cash flow required. In addition, the Company's investible funds are substantially placed in fixed and call deposits and other money market instruments. Should there be any abnormal and unexpected cash outflow required, the Company is still able to meet its obligation in short period via the liquidation of bond holdings.

The Company endeavors to manage the maturity profiles of these financial instruments to meet financial obligations and working capital requirements.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial assets**

The table below analyses the carrying amount of financial assets (excluding financial assets classified as non-current assets held-for-sale) based on the remaining contractual maturities:

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2017						
HTM financial assests	611,211	-	251,073	360,138	-	611,211
AFS financial assets	10,348,635	1,045,711	2,346,298	4,674,923	2,281,703	10,348,635
FVTPL financial assets	2,584,119	45,712	410,495	1,075,755	1,052,157	2,584,119
Loan and receivables	926,180	926,180	-	-	-	926,180
Derivative assets	5,520	-	5,053	467	-	5,520
Reinsurance assets	44,589	44,589	-	-	-	44,589
Insurance receivables	148,410	148,410	-	-	-	148,410
Other receivables *	45,389	45,389	-	-	-	45,389
Cash and cash equivalents	1,650,479	1,650,479	-	-	-	1,650,479
Total financial assets	16,364,532	3,906,470	3,012,919	6,111,283	3,333,860	16,364,532

* Other receivables as at 30 June 2017 excluded prepayment, GST recoverable & deposit of RM3,916,874.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial assets (cont'd)**

The table below analyses the carrying amount of financial assets (excluding financial assets classified as non-current assets held-for-sale) based on the remaining contractual maturities: (cont'd)

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2016						
HTM financial assets	611,384	-	251,073	360,311	-	611,384
AFS financial assets	8,671,708	312,462	3,176,815	3,307,642	1,874,789	8,671,708
FVTPL financial assets	1,718,141	1,912	430,368	570,418	715,443	1,718,141
Loan and receivables	1,362,531	1,362,531	-	-	-	1,362,531
Derivative assets	8,673	8,673	-	-	-	8,673
Reinsurance assets	48,548	48,548	-	-	-	48,548
Insurance receivables	134,450	134,450	-	-	-	134,450
Other receivables *	19,690	19,690	-	-	-	19,690
Cash and cash equivalents	1,691,263	1,691,263	-	-	-	1,691,263
Total financial assets	14,266,388	3,579,529	3,858,256	4,238,371	2,590,232	14,266,388

* Other receivables as at 30 June 2016 excluded prepayment, GST recoverable & deposit of RM3,274,524.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial liabilities**

The table below shows the contractual undiscounted cash flows payable for financial liabilities (excluding financial liabilities classified as liabilities directly associated with assets classified as held-for-sale) of the Company based on the remaining contractual maturities:

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2017					
Insurance contract liabilities: *					
-With DPF	9,014,993	131,681	2,077,432	18,076,838	20,285,951
-Without DPF	2,778,293	1,944,045	192,166	2,146,566	4,282,777
Insurance payables	2,257,435	2,257,435	-	-	2,257,435
Other payables	232,051	232,051	-	-	232,051
Derivative liabilities	25,954	1,339	-	24,615	25,954
Subordinated notes	507,372	31,138	89,354	558,289	678,781
Total financial liabilities	<u>14,816,098</u>	<u>4,597,689</u>	<u>2,358,952</u>	<u>20,806,308</u>	<u>27,762,949</u>

* Excluding AFS reserve.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial liabilities (cont'd)**

The table below shows the contractual undiscounted cash flows payable for financial liabilities (excluding financial liabilities classified as liabilities directly associated with assets classified as held-for-sale) of the Company based on the remaining contractual maturities: (cont'd)

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2016					
Insurance contract liabilities: *					
-With DPF	8,118,619	5,719	1,629,576	17,913,314	19,548,609
-Without DPF	2,209,794	1,470,692	97,019	1,876,698	3,444,409
Insurance payables	1,900,569	1,900,569	-	-	1,900,569
Other payables	217,210	217,210	-	-	217,210
Derivative liabilities	23,659	198	-	23,461	23,659
Subordinated notes	507,072	31,015	89,354	580,435	700,804
Total financial liabilities	<u>12,976,923</u>	<u>3,625,403</u>	<u>1,815,949</u>	<u>20,393,908</u>	<u>25,835,260</u>

* Excluding AFS reserve.

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(b) Liquidity risk (cont'd)

Maturity profile of financial liabilities (cont'd)

For insurance contract liabilities, maturity profiles are estimated based on projected net cash outflows from the recognised insurance liabilities.

Investment-linked liabilities are repayable or transferable on demand and are included under the "up to 1 year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

(c) Market risk

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

The segmentation of product liabilities facilitates an effective market risk analysis. The Company adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on asset mix, asset quality, sector mix, currency mix, interest rate risk exposure and liquidity targets.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's main exposure to foreign currency risk arises from its foreign investments. The foreign exchange management policy aims to minimise its exposure arising from currency movements. Derivative financial instruments held are solely for purpose of managing foreign currency risk and are classified as financial assets and financial liabilities.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(c) Market risk (cont'd)****(i) Currency risk (cont'd)**

The following are the carrying amounts of the financial assets that are denominated in currencies other than the functional currency of the Company:

	Financial assets RM'000
2017	
Singaporean dollar	80,301
US dollar	299,159
Australian dollar	20,223
Euro	1
Hong Kong dollar	84,994
Indonesian Rupiah	3,075
Total	<u>487,753</u>
2016	
Singaporean dollar	84,440
US dollar	352,982
Australian dollar	15,297
Euro	49,219
Hong Kong dollar	89,324
Japanese yen	14,045
Total	<u>605,307</u>

The financial liabilities of the Company are all denominated in Ringgit Malaysia.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(c) Market risk (cont'd)****(i) Currency risk (cont'd)**

The following table demonstrates the sensitivity to a reasonably possible change in currency rates for all currencies other than the functional currency stated above, with all other variables held constant showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency 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.

	Impact on profit before tax	Impact on equity *
	RM'000	RM'000
2017		
Change in currency rates:		
+ 5%	(1,503)	(1,202)
- 5%	1,503	1,202
2016		
Change in currency rates:		
+ 5%	1,263	1,013
- 5%	(1,263)	(1,013)

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

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(ii) Interest rate risk

Interest rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises due to differences in pricing or tenure of investments and liabilities. For the insurance business, interest rate risk is managed by limiting the interest rate guarantees that are embedded in the insurance plans. The interest rate risk is also managed through setting the appropriate asset allocation reflecting the liability profile and the availability of suitable instrument in the investment market. The nature of the participating fund gives the Company the flexibility to adjust the policyholders' bonus or dividends.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on the Company's profit before tax 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.

	Impact on		Impact on equity*	
	profit before tax			
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Change in interest rate:				
+ 100 basis point	(73,860)	(33,166)	(87,659)	(67,838)
- 100 basis point	87,202	38,182	101,398	76,156

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

The above impact arose from investments in fixed income securities which are classified as fair value through profit or loss and available-for-sale financial assets. The impact arising from changes in interest rate risk to fixed income securities of the insurance contracts with DPF are retained in the insurance contract liabilities. Investment in unit trusts are insensitive to interest rate risk.

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

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(iii) Price risk

The Company's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of the change in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company has acknowledged the inherent risk of investing in equities. Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls. In addition, the Investment Committee at its monthly meeting discusses the economic and market outlook, reviews transactions and deliberates on equity allocation. The nature of the participating fund gives the flexibility to adjust the policyholders' bonus or dividends.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant showing the impact on the Company's profit before tax 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.

	Impact on equity*	
	2017	2016
	RM'000	RM'000
Change in equity market price:		
+ 20%	54,280	51,820
- 20%	(54,280)	(51,820)

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

The above impact to the Company's equity arose from the investments in equity securities which are classified as available-for-sale financial assets and hence does not have any impact on profit before tax. In the analysis above, the impact arising from changes in prices of equity securities of the insurance contracts with DPF is retained in the insurance contract liabilities.

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

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(d) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events. The Company seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Company. The Company uses an established program of comprehensive risk self-assessments as well as Key Risk Indicators (KRIs) in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls.

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NOTES TO THE FINANCIAL STATEMENTS

33 . FAIR VALUE HIERARCHY

Recurring fair values 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 value is 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 is readily available, and the price represents 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 instrument are generally classified as Level 2.

Level 2 valuation 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 valuation incorporates 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.

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NOTES TO THE FINANCIAL STATEMENTS**33 . FAIR VALUE HIERARCHY (CONT'D)**

	Financial assets		
	AFS	FVTPL	Total
	RM'000	RM'000	RM'000
2017			
<u>Recurring fair value measurements</u>			
Level 1	2,279,556	1,052,157	3,331,713
Level 2	8,066,932	1,531,962	9,598,894
Level 3	2,147	-	2,147
	<u>10,348,635</u>	<u>2,584,119</u>	<u>12,932,754</u>
2016			
<u>Recurring fair value measurements</u>			
Level 1	1,872,642	715,443	2,588,085
Level 2	6,796,919	1,002,698	7,799,617
Level 3	2,147	-	2,147
	<u>8,671,708</u>	<u>1,718,141</u>	<u>10,389,849</u>
		Derivatives	Derivatives
		assets	liabilities
		RM'000	RM'000
2017			
<u>Recurring fair value measurements</u>			
Level 2		5,520	25,954
		<u>5,520</u>	<u>25,954</u>
2016			
<u>Recurring fair value measurements</u>			
Level 2		8,673	23,659
		<u>8,673</u>	<u>23,659</u>

There is no significant transfer between Level 1 and Level 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**34 . 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, Investment-linked Fund ("ILF") and the SHF. The Life insurance business offers a wide range of participating and non-participating Whole Life, Term Assurance, Endowment and Unit-linked products.

STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2017

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Assets					
Property, plant and equipment	1,476	86,056	-	-	87,532
Intangible assets	-	3,741	-	-	3,741
Investment properties	231,594	265,030	-	-	496,624
Financial assets	862,011	11,921,985	1,686,149	-	14,470,145
- HTM financial assets	-	611,211	-	-	611,211
- AFS financial assets	861,977	9,486,658	-	-	10,348,635
- FVTPL financial assets	-	918,213	1,665,906	-	2,584,119
- Loans and receivables	34	905,903	20,243	-	926,180
Derivative assets	-	5,520	-	-	5,520
Reinsurance assets	-	44,589	-	-	44,589
Insurance receivables	-	148,410	-	-	148,410
Other receivables	1,171,612	43,235	4,580	(1,170,121)	49,306
Non-current assets held-for-sale	60	-	-	-	60
Cash and cash equivalents	25,237	1,502,622	122,620	-	1,650,479
Total assets	2,291,990	14,021,188	1,813,349	(1,170,121)	16,956,406

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2017 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	1,372,089	-	-	-	1,372,089
Total equity	1,572,089	-	-	-	1,572,089
Insurance contract liabilities	-	10,307,490	1,797,204	-	12,104,694
Deferred tax liabilities	190,642	29,297	12,810	-	232,749
Tax payables	8,624	13,739	1,699	-	24,062
Insurance payables	-	2,257,435	-	-	2,257,435
Other payables	13,203	1,387,559	1,410	(1,170,121)	232,051
Derivative liabilities	60	25,668	226	-	25,954
Subordinated notes	507,372	-	-	-	507,372
Total policyholders' fund and liabilities	719,901	14,021,188	1,813,349	(1,170,121)	15,384,317
Total equity, policyholders' fund and liabilities	2,291,990	14,021,188	1,813,349	(1,170,121)	16,956,406

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2016**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Assets					
Property, plant and equipment	1,507	85,951	-	-	87,458
Intangible assets	-	3,748	-	-	3,748
Investment properties	226,594	264,740	-	-	491,334
Financial assets	711,409	10,512,836	1,139,519	-	12,363,764
- HTM financial assets	-	611,384	-	-	611,384
- AFS financial assets	711,376	7,960,332	-	-	8,671,708
- FVTPL financial assets	-	578,622	1,139,519	-	1,718,141
- Loans and receivables	33	1,362,498	-	-	1,362,531
Derivative assets	136	7,402	1,135	-	8,673
Reinsurance assets	-	48,548	-	-	48,548
Insurance receivables	-	134,450	-	-	134,450
Other receivables	1,037,797	16,375	3,476	(1,034,683)	22,965
Non-current assets held-for-sale	60	-	-	-	60
Cash and cash equivalents	139,422	1,318,573	233,268	-	1,691,263
Total assets	2,116,925	12,392,623	1,377,398	(1,034,683)	14,852,263

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2016 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	1,238,646	-	-	-	1,238,646
Total equity	<u>1,438,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,438,646</u>
Insurance contract liabilities	-	9,200,035	1,374,155	-	10,574,190
Deferred tax liabilities	161,358	23,017	1,203	-	185,578
Tax payables	1,769	7,942	(4,372)	-	5,339
Insurance payables	-	1,900,569	-	-	1,900,569
Other payables	8,080	1,237,401	6,412	(1,034,683)	217,210
Derivative liabilities	-	23,659	-	-	23,659
Subordinated notes	507,072	-	-	-	507,072
Total policyholders' fund and liabilities	<u>678,279</u>	<u>12,392,623</u>	<u>1,377,398</u>	<u>(1,034,683)</u>	<u>13,413,617</u>
Total equity, policyholders' fund and liabilities	<u>2,116,925</u>	<u>12,392,623</u>	<u>1,377,398</u>	<u>(1,034,683)</u>	<u>14,852,263</u>

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment- linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Gross earned premiums	-	2,595,915	417,330	-	3,013,245
Premiums ceded to reinsurers	-	(96,330)	-	-	(96,330)
Net earned premiums	-	2,499,585	417,330	-	2,916,915
Investment income	35,643	586,105	34,666	-	656,414
Realised gains	8,055	134,020	19,390	-	161,465
Fair value gains/(losses)	4,804	(21,153)	144,984	-	128,635
Fees and commission income	-	26,973	-	(12,108)	14,865
Other revenue	48,502	725,945	199,040	(12,108)	961,379
Gross benefits and claims paid	-	(1,342,405)	(157,145)	-	(1,499,550)
Claims ceded to reinsurers	-	61,294	-	-	61,294
Gross change to contract liabilities	-	(1,036,924)	(423,049)	-	(1,459,973)
Change in contract liabilities ceded to reinsurers	-	(721)	-	-	(721)
Net claims	-	(2,318,756)	(580,194)	-	(2,898,950)
Fees and commission expense	796	(447,310)	(12,108)	12,108	(446,514)
Management expenses	(12,119)	(161,354)	(4,681)	-	(178,154)
Other operating expenses-net	175	(21,396)	(4,258)	-	(25,479)
Other expenses	(11,148)	(630,060)	(21,047)	12,108	(650,147)
Finance costs	(22,677)	-	-	-	(22,677)
Profit from operations	14,677	276,714	15,129	-	306,520

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment- linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Profit from operations	14,677	276,714	15,129	-	306,520
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	120,000	(120,000)	-	-	-
Profit before taxation	134,677	156,714	15,129	-	306,520
Taxation	(46,271)	(46,366)	(15,129)	-	(107,766)
Net profit for the financial year	88,406	110,348	-	-	198,754

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment- linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Gross earned premiums	-	2,447,413	339,207	-	2,786,620
Premiums ceded to reinsurers	-	(86,641)	-	-	(86,641)
Net earned premiums	-	2,360,772	339,207	-	2,699,979
Investment income	36,253	522,858	48,553	-	607,664
Realised gains/(losses)	14,889	23,147	(29,305)	-	8,731
Fair value gains/(losses)	418	23,273	(38,096)	-	(14,405)
Fees and commission income	-	21,675	-	(11,063)	10,612
Other revenue	51,560	590,953	(18,848)	(11,063)	612,602
Gross benefits and claims paid	-	(1,258,292)	(129,520)	-	(1,387,812)
Claims ceded to reinsurers	-	54,132	-	-	54,132
Gross change to contract liabilities	-	(901,082)	(177,867)	-	(1,078,949)
Change in contract liabilities ceded to reinsurers	-	365	-	-	365
Net claims	-	(2,104,877)	(307,387)	-	(2,412,264)
Fees and commission expense	(174)	(415,044)	(11,063)	11,063	(415,218)
Management expenses	(7,924)	(143,108)	(4,053)	-	(155,085)
Other operating expenses-net	(43,614)	(75,068)	(1,226)	-	(119,908)
Other expenses	(51,712)	(633,220)	(16,342)	11,063	(690,211)
Finance costs	(22,739)	-	-	-	(22,739)
Profit from operations	(22,891)	213,628	(3,370)	-	187,367

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment- linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Profit from operations	(22,891)	213,628	(3,370)	-	187,367
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	90,000	(90,000)	-	-	-
Profit before taxation	67,109	123,628	(3,370)	-	187,367
Taxation	(21,118)	(35,977)	3,370	-	(53,725)
Net profit for the financial year	45,991	87,651	-	-	133,642

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NOTES TO THE FINANCIAL STATEMENTS**35 . 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 year:

	2017	2016
	RM'000	RM'000
<u>Statement of financial position</u>		
Assets		
Financial assets - FVTPL financial assets	3,782	3,757
Liabilities		
Tax recoverables	(12)	(10)
Deferred tax liabilities/(assets)	9	(32)
Total liabilities	(3)	(42)
Net asset value	3,785	3,799
<u>Statement of comprehensive income</u>		
Realised losses	(26)	(64)
Fair value gains/(losses)	519	(113)
Other revenue	493	(177)
Gross benefits and claims paid	(468)	(367)
Gross change to contract liabilities	14	530
Net claims	(454)	163
Profit/(losses) before taxation	39	(14)
Taxation	(39)	14
Net profit for the financial year	-	-

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NOTES TO THE FINANCIAL STATEMENTS

36 . EQUITY COMPENSATION BENEFITS

EXECUTIVE SHARE OPTION SCHEME

Pursuant to the Employee Share Option Scheme (“ESOS”) established by the Company, the eligible executives of the Company are granted options to purchase ordinary shares of the Company’s penultimate holding company, HLFM.

ESOS 2013/2023

The ESOS options granted have performance and/or service based vesting conditions. Generally, the share options granted can be classified into 2 categories:

- (i) An award that is conditional upon achieving agreed key performance indicators and milestones; and/or
- (ii) An award for the recognition of material and positive accomplishments towards building a strong and sustainable underlying business value, preserving and enhancing the quality of assets and for shareholders wealth creation.

The vesting period of the options range from 2.80 to 4.80 years from grant date.

There were 13,200,000 options granted at an exercise price of RM16.88 under the ESOS 2013/2023 on 2 April 2015 which would expire on 11 March 2023.

In the event of a rights issue, adjustments (if any) may be made to the number of HLFM shares relating to an option or any portion thereof that is unexercised or the option price. On 6 November 2015, the options exercise price was adjusted to RM16.61 and additional options were granted due to the rights issue exercise.

The number of options held by the Trustee are as follows:

	2017	2016
	Unit	Unit
	'000	'000
At 1 July	11,688	12,200
Adjustment for right issue	-	190
Forfeited	(1,118)	(702)
At 30 June	<u>10,570</u>	<u>11,688</u>

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NOTES TO THE FINANCIAL STATEMENTS

36 . EQUITY COMPENSATION BENEFITS (CONT'D)

EXECUTIVE SHARE OPTION SCHEME (CONT'D)

ESOS 2013/2023 (cont'd)

The fair value of share options granted was estimated using the Black-scholes model, taking into account the terms and conditions upon which the options are granted and is inclusive of incremental fair value arising from adjusted exercise price. The expected volatility reflects the assumption that the historical volatility was indicative of future trends, which may not necessarily be the actual outcome.

The value of share options and the key inputs for share options valuation were as follows:

	2017	2016
Fair value of share options (RM)	0.94 - 1.97	0.82 - 1.59
Share price at valuation date (RM)	16.80	14.68
Adjusted exercise price (RM)	16.61	16.61
Expected volatility (%)	17.28	20.42
Weighted average dividend yield (%)	2.28	2.36
Weighted average risk free rate (%)	3.10	3.30

During the financial year, the Company had recognised share-based compensation expense amounting to RM5,488,811 (2016: RM3,565,762).

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NOTES TO THE FINANCIAL STATEMENTS

37 . SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 30 June 2016, the penultimate holding company and immediate holding company, i.e. Hong Leong Financial Group Berhad ("HLFG") and HLA Holdings Sdn Bhd ("HLAH") announced that Bank Negara Malaysia has no objection for HLFG and HLAH to commence negotiations with certain parties for the possible acquisition by them of HLAH's equity interest in Hong Leong Assurance Berhad, a 70% subsidiary of HLAH, subject to the negotiations being concluded within 6 months from 23 June 2016.

On 4 November 2016, HLFG announced that HLFG and HLAH could not reach an acceptable commercial agreement with the BNM approved negotiating parties and have mutually agreed to cease negotiations.