

COMPANY NUMBER (94613-X)

HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

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 2018

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2018.

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

Net profit for the financial year

RM'000

211,456

DIVIDENDS

Since the last financial year ended 30 June 2017, a final single tier dividend of 40.0 sen per share amounting to RM80,000,000 in respect of the financial year ended 30 June 2017, was paid on 27 October 2017.

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.

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 2018 (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 2018 (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.

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 2018 (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 her 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 Group Board Audit Committee ("GBAC") and Group Board Risk Management Committee ("GBRMC") respectively under HLA Holdings Sdn Bhd ("HLAH"). 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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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

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

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.

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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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

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

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.

Based on the review of the board composition in September 2018, the Board is of the 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 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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

II Board Composition

During the financial year ended 30 June 2018, 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

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 excuse himself from deliberating 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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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

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 75, 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 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 Hong Leong Financial Group Berhad ("HLFG") and Hong Leong Bank Berhad ("HLB"), both companies listed on the Main Market of Bursa Malaysia Securities Berhad; and Chairman of Hong Leong Foundation, a public company. He is also the Chairman of the Council of Members of Hong Leong Bank Vietnam Limited.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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

Directors' Profile (cont'd)

MR TAN KONG KHOON

Executive Director/Non-Independent

Age 61, 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. He is a Chartered Banker of the Asian Institute of Chartered Bankers.

Mr Tan is the President & Chief Executive Officer of HLFM. 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 DBS Bank Ltd ("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 & Chief Executive Officer of Bank of Ayudhya, the fifth largest financial group in Thailand listed on the Thailand Stock Exchange. The group businesses included commercial and investment banking, life and non-life insurance, stock broking, asset management and consumer finance subsidiaries.

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 the Chairman of Hong Leong Capital Berhad and a Director of HLFM and HLB, companies listed on the Main Market of Bursa Malaysia Securities Berhad; and a Director of Hong Leong Investment Bank Berhad, a public company. He is also the Chairman of Hong Leong Bank (Cambodia) PLC and Chief Controller on the Board of Controllers of Hong Leong Bank Vietnam Limited.

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CORPORATE GOVERNANCE (CONT'D)

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

Directors' Profile (cont'd)

MR MASAKATSU KOMAITA

Non-Executive Director/Non-Independent

Age 56, Male, Japanese

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 31 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 Mitsui Sumitomo Insurance Company, Limited ("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 ("HLMT"), 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 68, 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 HLAH and is a member of the GBAC and the GBRMC of HLAH. He 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.

YBhg Dato' Siow was appointed to the Board of HLA on 30 September 2011 and is a member of the Remuneration Committee of HLA.

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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 60, 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 Remuneration Committee of HLA. He is also a member of the GBAC and GBRMC of HLAH.

YM Tunku Dato' Mahmood Fawzy is the Chairman of Deutsche Bank (Malaysia) Berhad and HLMT and an Independent Director of Hong Leong Asset Management Bhd. He is also the Senior Independent Director of Telekom Malaysia Berhad ("TM") and the Chairman of VADS Berhad and a Director of Webe Digital Sdn Bhd, both are subsidiaries of TM Group of Companies.

He was previously an Independent Non-Executive Director of Hong Leong Islamic Bank Berhad and SapuraKencana Petroleum Berhad/Kencana Petroleum Berhad and a Non-Independent Non-Executive Director of Malaysia Airport Holdings Berhad and Pos Malaysia Berhad. He was also a Director of 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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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

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 63, 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 MUI Properties Berhad and Heineken Malaysia Berhad as an Independent Director; and serves as a trustee of Yayasan Sin Chew. She also contributes her time to the 30% Club Malaysia through co-leading the Media & Communications Workgroup.

YBhg Datin Ngiam was appointed to the Board of HLA on 1 June 2012 and is a member of the Nomination Committee of HLA. She is also a member of the GBRMC of HLAH.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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

Directors' Profile (cont'd)

MS SHALET MARIAN

Non-Executive Director/Independent

Age 62, Female, Malaysian

Ms Shalet Marian 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. She took an early retirement in 2010 to refresh her skills in people management.

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 and is a member of the GBAC of HLAH.

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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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

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.

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 2018, the Directors received regular briefings and updates on the Company'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.

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CORPORATE GOVERNANCE (CONT'D)

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

Directors' Training (cont'd)

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 financial year ended 2018, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- BNM - PIDM Industry Seminar on Recovery and Resolution (RRP)
- Malaysian Code of Corporate Governance Update and Cyber Security Awareness Session
- Foreign Exchange Administration
- Good Governance: Challenges for the ASEAN Community
- Khazanah Megatrends
- Duties and Liabilities under the Malaysian Companies Act 2016
- International Association of Insurance Supervisors (IAIS) Annual Conference
- 2018 Budget: Implications to the Malaysian Economy and Capital Market
- Case Study Workshop for Independent Directors
- World Capital Markets Symposium 2018 - Renaissance of Capitalism : Markets for Growth
- MIA Audit Committee Conference 2018
- Anti Money Laundering (AML) Training
- Briefing on Malaysian Financial Reporting Standards (MFRS 17)
- Digital Transformation and Impact to Businesses
- GST Risk Management - Common Mistakes & How To Avoid Them

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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

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 Khoo

(Non-Independent Executive Director)

YBhg Datin Ngiam Pick Ngoh

(Independent Non-Executive Director)

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(ies):
 - (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 and Board Committees 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.
- (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.

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CORPORATE GOVERNANCE (CONT'D)

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

Nomination Committee (cont'd)

During the financial year ended 30 June 2018, 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

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.

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Directors' Remuneration (cont'd)

Remuneration Committee (cont'd)

During the financial year ended 30 June 2018, two (2) Remuneration Committee Meetings were held and the attendance of Members was as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	2/2
YBhg Tan Sri Quek Leng Chan	2/2
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	2/2

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 22(b) to the financial statements.

Remuneration Policy

HLA'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 2018 (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 the current financial year 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	1,530,000	-	7,942,052	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
Variable Remuneration				
• Cash-based	1,995,862	-	3,410,136	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit

GBAC of HLAH

The GBAC was established under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Audit Committees of HLAH, HLA and HLMT at HLAH, being the financial holding company. The Board Audit and Risk Management Committee ("BARMC") of HLA was disbanded on 13 December 2017 with the establishment of the GBAC and GBRMC under HLAH.

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

Ms Lim Tau Kien

(Chairman of GBAC and Independent Non-Executive Director of HLAH)

(Appointed as GBAC Chairman on 13 December 2017)

YBhg Dato Siow Kim Lun @ Siow Kim Lin

(Chairman, Independent Non-Executive Director of HLAH and Independent Non-Executive Director of HLA)

(Appointed as GBAC member on 13 December 2017)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Chairman, Independent Non-Executive Director of HLMT and Independent Non-Executive Director of HLA)

(Appointed as GBAC member on 13 December 2017)

Ms Shalet Marian

(Independent Non-Executive Director of HLA)

(Appointed as GBAC member on 13 December 2017)

Mr Martin Giles Manen

(Independent Non-Executive Director of HLMT)

(Appointed as GBAC member on 16 April 2018)

Prior to the establishment of GBAC, the financial reporting and control system of the Company was overseen by the BARMC. The BARMC comprised 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)

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBAC of HLAH (cont'd)

Terms of Reference

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

External Audit

- To make recommendations to the Board of HLAH and its subsidiaries 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 HLAH and its subsidiaries 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 GBAC 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.

Related Party/Connected Party Transactions

- To review and update the Board of HLAH and its subsidiaries on any related party transactions that may arise within the Group.
- To monitor compliance with the Board of HLAH and its subsidiaries' conflict of interest policy.

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBAC of HLAH (cont'd)

Terms of Reference (cont'd)

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 of HLAH and its subsidiaries 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 Group 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 of HLAH and its subsidiaries and recommend for respective Board's approval.
- Other audit functions as may be agreed to by the GBAC and the Board of HLAH and its subsidiaries.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBAC of HLAH (cont'd)

Terms of Reference (cont'd)

Group Governance

- Noted that :
 - a) Hong Leong Financial Group Berhad ("HLFG") as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within its group of companies ("HLFG Group").
 - b) HLFG Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.
 - c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFG Group-wide.
 - d) The respective subsidiaries' board and senior management must validate that the objectives, strategies, plans, governance framework and policies set at HLFG 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 HLFG Group-wide policies.
- The GBAC shall validate that the objectives, strategies, plans, governance framework and policies set at the HLFG 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.

During the financial year ended 30 June 2018, four (4) GBAC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Lim Tau Kien	4/4
YBhg Dato Siow Kim Lun @ Siow Kim Lin	4/4
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	4/4
Ms Shalet Marian	4/4
Mr Martin Giles Manen	3/3

Before the establishment of GBAC, three (3) BARMC meetings were held during the financial year ended 30 June 2018 until the BARMC was disbanded on 13 December 2017 and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Dato Siow Kim Lun @ Siow Kim Lin	3/3
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	3/3
YBhg Datin Ngiam Pick Ngoh	3/3

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBAC of HLAH (cont'd)

Insurance Audit Department ("IAD")

The Company's internal audit function is carried out by the Insurance 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 GBAC. All internal audit reports which incorporates the management's responses were tabled for discussion at the GBAC meetings.

During the financial year ended 30 June 2018, IAD carried out its duties covering audit on operations, data privacy and protection, agency, product development, 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 RM1,091,000 (2017: RM891,000).

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.

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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBAC of HLAH (cont'd)

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 27 to the financial statements.

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.

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.

Relationship with Auditors

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBRMC of HLAH

The GBRMC was established under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Risk Management Committees of HLAH, HLA and HLMT at HLAH, being the financial holding company. The BARMC of HLA was disbanded on 13 December 2017 with the establishment of the GBAC and GBRMC under HLAH.

The risk management and compliance system of the Company is overseen by the GBRMC, which comprises the following members:

Ms Koid Swee Lian

(Chairman of GBRMC and Independent Non-Executive Director of HLAH)

(Appointed as GBRMC Chairman on 13 December 2017)

YBhg Dato Siow Kim Lun @ Siow Kim Lin

(Chairman, Independent Non-Executive Director of HLAH and Independent Non-Executive Director of HLA)

(Appointed as GBRMC member on 13 December 2017)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Chairman, Independent Non-Executive Director of HLMT and Independent Non-Executive Director of HLA)

(Appointed as GBRMC member on 13 December 2017)

YBhg Datin Ngiam Pick Ngoh

(Independent Non-Executive Director of HLA)

(Appointed as GBRMC member on 13 December 2017)

Dr Aznan bin Hasan

(Independent Non-Executive Director of HLMT)

(Appointed as GBRMC member on 13 December 2017)

Prior to the establishment of GBRMC, the risk management and compliance system of the Company was overseen by the BARMC. The BARMC comprised 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)

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBRMC of HLAH (cont'd)

Terms of reference

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

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 of HLAH and its subsidiaries on measures taken to:
 - a) Identify and examine principal risks faced by HLAH and its subsidiaries.
 - 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 of HLAH and its subsidiaries' 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 of HLAH and its subsidiaries' 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, Approaches to Regulating and Supervising Financial group and Corporate Governance.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBRMC of HLAH (cont'd)

Terms of reference (cont'd)

Risk Management (cont'd)

- To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer/ Head of Risk Management ("CRO").
- To engage privately with the CRO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CRO to discuss issues faced by the risk management function.
- 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 GBRMC and the Board of HLAH and its subsidiaries.

Compliance

- To assist the Board of HLAH and its subsidiaries 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 HLAH and its subsidiaries' 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 of HLAH and its subsidiaries 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 of HLAH and its subsidiaries 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;

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBRMC of HLAH (cont'd)

Terms of reference (cont'd)

Compliance (cont'd)

- 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;
 - e) where CCO also carries out responsibilities in respect of other control functions, the GBRMC 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 GBRMC and the Board of HLAH and its subsidiaries.

Group Governance

- Noted that :
 - a) HLFG as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within HLFG Group.
 - b) HLFG Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.
 - c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFG Group-wide.
 - d) The respective subsidiaries' board and senior management must validate that the objectives, strategies, plans, governance framework and policies set at HLFG 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 HLFG Group-wide policies.
- The GBRMC shall validate that the objectives, strategies, plans, governance framework and policies set at HLFG 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 2018 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Accountability and Audit (cont'd)

GBRMC of HLAH (cont'd)

Terms of reference of (cont'd)

Group Governance (cont'd)

During the financial year ended 30 June 2018, three (3) GBRMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Koid Swee Lian	3/3
YBhg Dato Siow Kim Lun @ Siow Kim Lin	3/3
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	3/3
YBhg Datin Ngiam Pick Ngoh	3/3
Dr Aznan bin Hasan	3/3

Before the establishment of GBRMC, three (3) BARMC meetings were held during the financial year ended 30 June 2018 until the BARMC was disbanded on 13 December 2017 and the attendance of the members were as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Dato Siow Kim Lun @ Siow Kim Lin	3/3
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	3/3
YBhg Datin Ngiam Pick Ngoh	3/3

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 Khoo
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

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (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:

Directors' 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/nominal value in Ringgit Malaysia of Additional Tier 1**
capital securities/perpetual subordinated sukuk wakalah***

	Nominal value per share RM (unless indicated)	As at 1/7/2017	Acquired	Sold	As at 30/6/2018
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 2018 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

Directors' 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**/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***					
Nominal value per share RM (unless indicated)	As at <u>1/7/2017</u>	<u>Acquired</u>	<u>Sold</u>	As at <u>30/6/2018</u>	
Interests of					
Tan Kong Khoon in:					
Hong Leong Financial Group Berhad	-	8,000,000	*	-	8,000,000 *
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 2018 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' 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/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah*****

	Nominal value per share RM (unless indicated)	As at 1/7/2017	Acquired	Sold	As at 30/6/2018
Interest of					
YBhg Tan Sri Quek Leng Chan in :					
Hong Leong Company (Malaysia) Berhad	(1)	7,701,455 ⁽⁷⁾	-	(50,000) ⁽¹²⁾	7,651,455 ⁽⁷⁾
Hong Leong Financial Group Berhad	(1)	896,158,726 ⁽⁷⁾	-	-	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
		-	400,000,000 ***	-	400,000,000 ***
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 Islamic Bank Berhad		-	400,000,000 ***	-	400,000,000 ***
Hong Leong Industries Berhad	(1)	243,415,670 ⁽⁷⁾	200,000 ⁽⁷⁾⁽¹¹⁾	(915,200) ⁽⁷⁾	242,700,470 ⁽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 ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' 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/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah*****

	Nominal value per share RM (unless indicated)	As at 1/7/2017	Acquired	Sold	As at 30/6/2018
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)	108,950,757	-	(235,500)	108,715,257
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)	350,231,658 ⁽⁷⁾	-	-	350,231,658 ⁽⁷⁾
		100,000 ^{*(7)}	-	-	100,000 ^{*(7)}

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' 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/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah*****

	Nominal value per share RM (unless indicated)	As at 1/7/2017	Acquired	Sold	As at 30/6/2018
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	35,000 ⁽⁷⁾⁽¹¹⁾	-	817,946,030 ⁽⁷⁾
		420,000 ^{*(7)}	-	(35,000) ^{*(7)}	385,000 ^{*(7)}
Southern Steel Berhad	(1)	292,169,709	-	-	292,169,709
	(1)	140,076,337 ^{**}	-	-	140,076,337 ^{**}
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	123,372,953	1,591,200	-	124,964,153
TPC Commercial Pte. Ltd.	(2)	189,600,000	-	-	189,600,000
TPC Hotel Pte. Ltd.	(2)	8,000,000	54,400,000	-	62,400,000
Wallich Residence Pte. Ltd.	(2)	24,000,000	-	-	24,000,000
GLL A Pte. Ltd.	(2)	7 ⁽⁹⁾	-	-	7 ⁽¹⁰⁾

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' 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/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah*****

	Nominal value per share RM (unless indicated)	As at 1/7/2017	Acquired	Sold	As at 30/6/2018
Interest of					
YBhg Tan Sri Quek Leng Chan in : (cont'd)					
GLL Chengdu Pte Ltd	(2)	149,597,307	-	-	149,597,307
GLL Prosper Pte Ltd	(2)	128,800,000 ⁽⁹⁾	-	-	128,800,000 ⁽¹⁰⁾
GLL Thrive Pte Ltd	(2)	22,400,000 ⁽⁹⁾	-	-	22,400,000 ⁽¹⁰⁾
Beijing Ming Hua Property Co., Ltd	(3)	150,000,000	-	-	150,000,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	3,150,000,000	-	-	3,150,000,000
Shanghai Xinhaozhong Holding Co., Ltd (formerly known as Shanghai Xinhaozhong Property Development Co., Ltd)	(3)	19,600,000	-	(19,110,000)	490,000
JB Parade Sdn Bhd	(1)	28,000,000	-	-	28,000,000
	(1)	68,594,000 ⁽⁸⁾	28,796,000 ⁽⁸⁾	-	97,390,000 ⁽⁸⁾

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' 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/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah*****

	Nominal value per share RM (unless indicated)	As at 1/7/2017	Acquired	Sold	As at 30/6/2018
Interest of					
YBhg Tan Sri Quek Leng Chan in : (cont'd)					
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
GuocoLand (Malaysia) Berhad	(1)	455,574,796	-	-	455,574,796
Guoman Hotel & Resort Holdings Sdn Bhd	(1)	277,000,000	-	-	277,000,000
GLM Emerald Industrial Park (Jasin) Sdn Bhd (formerly known as Continental Estates Sdn Bhd)	(1)	34,408,000	-	-	34,408,000
	(1)	123,502,605 ⁽⁸⁾	-	-	123,502,605 ⁽⁸⁾
GL Limited	USD0.20	925,753,134	-	-	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 2018 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Notes:

- (1) Concept of par value was abolished with effect from 31 January 2018 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) A wholly owned subsidiary
- (10) Became a non-wholly owned subsidiary during the financial year
- (11) Exercise of share options
- (12) Cancellation pursuant to reduction of share capital

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (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 22(b) to the financial statement, included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements or as fixed salary of a full-time employee of the Company or of related corporations) 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 2018 (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, Hong Leong Financial Group ("HLFG").

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.

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.

Options granted on 2 April 2015 ("Options 2015")

There were 13,200,000 options granted at an exercise price of RM16.88 under the ESOS 2013/2023 on 2 April 2015 which will fully expire in June 2020.

The vesting period of the options range from 3.20 to 5.20 years from grant date. The weighted average remaining option life as at 30 June 2018 is 1.29 years.

On 9 November 2015, the exercise price for the share options granted on 2 April 2015 under the scheme was adjusted from RM16.88 to RM16.61 and additional share options of 189,819 were allotted to the option holders, in accordance with the provisions of the Bye-Laws governing the Executive Share Scheme ("ESS").

Options granted on 30 March 2018 ("Options 2018")

There were 10,450,000 options granted at an exercise price of RM17.12 under the ESOS 2013/2023 on 30 March 2018 which will fully expire in June 2023.

The vesting period of the options range from 1.70 to 5.70 years from grant date. The weighted average remaining option life as at 30 June 2018 is 3.37 years.

During the financial year, the Company had recognised share-based compensation income amounting to RM2,393,827 (share-based compensation expense for 2017: RM5,488,811).

HONG LEONG ASSURANCE BERHAD

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (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 22 to the financial statements.

AUDITORS

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

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

This report was approved by the Board of Directors on 7 September 2018. Signed on behalf of the Board of Directors.



Tan Kong Khoo



Dato' Siow Kim Lun @ Siow Kim Lin

Petaling Jaya
7 September 2018


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 49 to 167 are drawn up so as to give a true and fair view of the financial position of the Company as at 30 June 2018 and financial performance of the Company for the financial year ended 30 June 2018 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 7 September 2018.



.....
Tan Kong Khoon
Director



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

Petaling Jaya
7 September 2018

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 49 to 167 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 7 September 2018)



Before me



No. 34A (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 2018, 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 2018, and the statement of income, statement of other 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 49 to 167.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

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

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

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 (CONT'D)
(Incorporated in Malaysia)
(Company No. 94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

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 (CONT'D)
(Incorporated in Malaysia)
(Company No. 94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Auditors' responsibilities for the audit of the financial statements (cont'd)

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 large, stylized handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

A large, stylized handwritten signature in black ink, appearing to read 'Manjit Singh'.

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

Kuala Lumpur
7 September 2018

HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Property, plant and equipment	3	83,434	87,532
Intangible assets	4	6,541	3,741
Investment properties	5	494,164	496,624
Financial assets	6	15,763,366	14,470,145
- Held-to-maturity financial assets	6(a)	611,075	611,211
- Available-for-sale financial assets	6(b)	10,904,597	10,348,635
- Fair value through profit or loss financial assets	6(c)	3,401,161	2,584,119
- Loans and receivables	6(d)	846,533	926,180
Derivative assets	7	24,104	5,520
Reinsurance assets	12	49,908	44,589
Insurance receivables	8	114,940	148,410
Other receivables	9	80,133	49,306
Non-current assets held-for-sale		60	60
Cash and cash equivalents		1,594,615	1,650,479
Total assets		18,211,265	16,956,406
Equity, policyholders' fund and liabilities			
Share capital	10	200,000	200,000
Reserves	11	1,460,374	1,372,089
Total equity		1,660,374	1,572,089
Insurance contract liabilities	12	12,888,019	12,104,694
Deferred tax liabilities	13	225,707	232,749
Tax payables		21,482	24,062
Insurance payables	14	2,630,836	2,257,435
Other payables	15	259,784	232,051
Derivative liabilities	7	17,514	25,954
Subordinated notes	16	507,549	507,372
Total policyholders' fund and liabilities		16,550,891	15,384,317
Total equity, policyholders' fund and liabilities		18,211,265	16,956,406

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 2018**

	Note	2018 RM'000	2017 RM'000
Gross earned premiums		2,950,124	3,013,245
Premiums ceded to reinsurers		(86,517)	(96,330)
Net earned premiums		<u>2,863,607</u>	<u>2,916,915</u>
Investment income	17	729,589	656,414
Realised gains	18	143,505	138,436
Fair value (losses)/gains	19	(108,802)	128,635
Fees and commission income	20	13,111	14,865
Other revenue		<u>777,403</u>	<u>938,350</u>
Gross benefits and claims paid		(1,729,396)	(1,499,550)
Claims ceded to reinsurers		60,382	61,294
Gross change to contract liabilities		(946,548)	(1,459,973)
Change in contract liabilities ceded to reinsurers		2,271	(721)
Net benefits and claims		<u>(2,613,291)</u>	<u>(2,898,950)</u>
Fees and commission expense		(434,559)	(446,514)
Management expenses	22	(177,770)	(178,154)
Other operating expenses-net	21	(83,737)	(2,450)
Other expenses		<u>(696,066)</u>	<u>(627,118)</u>
Finance cost		(22,677)	(22,677)
Surplus before taxation		308,976	306,520
Tax expense attributable to participating fund and unitholders		(34,749)	(54,483)
Profit before taxation attributable to shareholders		<u>274,227</u>	<u>252,037</u>
Taxation		(97,520)	(107,766)
Tax expense attributable to participating fund and unitholders		34,749	54,483
Taxation attributable to shareholders	23	(62,771)	(53,283)
Net profit for the financial year		<u>211,456</u>	<u>198,754</u>
Earnings per share (sen)	25	<u>105.73</u>	<u>99.38</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 2018**

	Note	2018 RM'000	2017 RM'000
Net profit for the financial year		211,456	198,754
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 (losses)/gains arising during the financial year		(125,479)	238,140
Gross fair value gains transferred to income statement		(116,184)	(137,943)
		<u>(241,663)</u>	<u>100,197</u>
Tax effects thereon	13	27,838	(12,877)
		<u>(213,825)</u>	<u>87,320</u>
Net fair value (losses)/gains		(213,825)	87,320
Change in insurance contract liabilities arising from net fair value changes		170,654	(65,631)
		<u>(43,171)</u>	<u>21,689</u>
Total comprehensive income for the financial year		<u><u>168,285</u></u>	<u><u>220,443</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 2018**

	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 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	24	-	-	-	-	(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>
At 1 July 2017		200,000	200,000	69,625	857,807	444,657	1,572,089
Profit for the financial year		-	-	-	84,751	126,705	211,456
Other comprehensive income for the financial year		-	-	(43,171)	-	-	(43,171)
Dividend paid during the financial year	24	-	-	-	-	(80,000)	(80,000)
At 30 June 2018		<u>200,000</u>	<u>200,000</u>	<u>26,454</u>	<u>942,558</u>	<u>491,362</u>	<u>1,660,374</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 2018**

	Note	2018 RM'000	2017 RM'000
Operating activities			
Net profit for the financial year		211,456	198,754
Adjustments for:			
Investment income recorded in income statement	17	(729,589)	(656,414)
Realised gains recorded in income statement	18	(143,505)	(138,237)
Fair value losses/(gains) recorded in income statement	19	108,802	(128,635)
Foreign exchange losses/(gains)		33,388	(13,677)
Proceeds from sale of fair value through profit or loss financial assets		826,179	964,552
Maturity of fair value through profit or loss financial assets		48,936	1,968
Purchase of fair value through profit or loss financial assets		(1,803,171)	(1,681,733)
Proceeds from sale of available-for-sale financial assets		1,778,792	1,932,294
Maturity of available-for-sale financial assets		1,034,846	263,900
Purchase of available-for-sale financial assets		(3,585,243)	(3,652,351)
Proceeds from realisation/(purchase) of derivatives		12,644	(16,516)
Decrease in loans and receivables		77,859	426,286
Finance costs		22,677	22,677
		<u>(2,317,385)</u>	<u>(2,675,886)</u>
Non-cash items:			
Depreciation of property, plant and equipment	3	5,080	5,460
Gains on disposal of property, plant and equipment	18	-	(199)
Amortisation of intangible assets	4	2,682	2,182
Impairment on available-for-sale financial assets		68,381	45,874
Tax expense		97,520	107,766
		<u>173,663</u>	<u>161,083</u>
Changes in working capital:			
(Increase)/decrease in reinsurance assets		(5,319)	3,959
Decrease/(increase) in insurance receivables		33,470	(13,960)
Increase in other receivables		(23,717)	(27,695)
Increase in insurance contract liabilities		953,979	1,464,873
Increase in insurance payables		373,401	356,866
Increase in other payables		27,733	14,841
		<u>1,359,547</u>	<u>1,798,884</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 2018 (CONT'D)**

		2018	2017
	Note	RM'000	RM'000
Cash used in operating activities		(572,719)	(517,165)
Dividend income received		114,514	114,351
Interest income received		582,916	515,630
Rental income received		7,730	17,453
Income taxes paid		(79,306)	(54,130)
Net cash inflow from operating activities		<u>53,135</u>	<u>76,139</u>
Investing activities			
Proceeds from sale of property, plant and equipment		-	348
Purchase of property, plant and equipment	3	(5,961)	(7,649)
Purchase of intangible assets	4	(503)	(209)
Net cash outflow from investing activities		<u>(6,464)</u>	<u>(7,510)</u>
Financing activities			
Dividends paid		(80,000)	(87,000)
Interest paid on subordinated notes		(22,500)	(22,377)
Net cash outflow from financing activities		<u>(102,500)</u>	<u>(109,377)</u>
Effect of exchange rate changes on cash and cash equivalents		(35)	(36)
Net decrease in cash and cash equivalents		(55,864)	(40,784)
Cash and cash equivalents at beginning of the financial year		1,650,479	1,691,263
Cash and cash equivalents at end of the financial year		<u><u>1,594,615</u></u>	<u><u>1,650,479</u></u>
Cash and cash equivalents comprise:			
Cash and bank balances		63,599	30,927
Fixed and call deposits with maturity of less than 3 months			
- Licensed financial institutions		1,531,016	1,619,552
		<u>1,594,615</u>	<u>1,650,479</u>

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

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 2018 (CONT'D)**

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

	Note	2018 RM'000	2017 RM'000
Subordinated note			
Balance at the beginning of the financial year		507,372	507,072
Cash changes:			
- Interest paid		(22,500)	(22,377)
Non-cash changes:			
- Accrued interest		22,500	22,500
- Amortised incidental costs		177	177
Balance at the end of the financial year	16	<u>507,549</u>	<u>507,372</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 registered office of the Company is located at Level 30, Menara Hong Leong, No 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur. 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, including investment-linked and annuity businesses. There have been no significant changes 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 7 September 2018.

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 income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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

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 2017**

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

Other than amendments to MFRS 107 required additional disclosure of changes in liabilities arising from financing activities, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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)

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 July 2018 that are applicable to the Company are as follows:-

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'.

Classification and measurements

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

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is:

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.

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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)

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

Classification and measurements (cont'd)

Due to accounting mismatch, certain debt instruments which pass the solely for the payment of principal and interest ("SPPI") test have been re-designated from held-to-maturity ("HTM") and available-for-sale ("AFS") to FVTPL by applying the Fair value option.

The Company have classified and measured all equity instruments that are not held for trading at FVTPL.

There will be no significant changes to the Company's accounting for financial liabilities as it largely retains the MFRS 139 requirements. All the financial liabilities, except for derivatives financial liabilities and financial liabilities designated at FVTPL, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

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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)

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

Impairment of financial assets

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 new impairment model requires the recognition of impairment allowances based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments, financial guarantee contracts and other loan commitments.

Under MFRS 9, impairment will be measured on each reporting date according to a three-stage ECL impairment model:

- Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).
- Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the financial asset (Lifetime ECL).
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL).

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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)

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

Impairment of financial assets (cont'd)

As all financial assets within the scope of MFRS 9 impairment model will be assessed for at least 12-month ECL, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with MFRS 139, the total allowance for credit losses is expected to increase under MFRS 9 relative to the allowance for credit losses under MFRS 139.

In addition, changes in the required credit loss allowance, including the impact of movements between Stage 1 (12-month ECL) and Stage 2 (lifetime ECL) and the application of forward looking information, will be recorded in profit or loss, allowance for credit losses will be more volatile under MFRS 9.

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

Hedge accounting

Under MFRS 9, the general hedge accounting requirements have been simplified for hedge effectiveness testing and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. The Company do not expect a significant impact arising from the changes in the hedge accounting requirements.

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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)

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

Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Company will apply the new rules retrospectively from 1 July 2018, with the practical expedients permitted under the standard. Comparatives for 2018 will not be restated.

The Company is still in the midst of finalising the financial impact in relation to the adoption of MFRS 9. Based on the preliminary assessments undertaken to-date, the Company expects an increase in the allowance for impairment on insurance receivables under the new impairment requirements, which will result in a reduction in the Company's opening retained profits and overall capital positions as of 1 July 2018.

Amendments to MFRS 4 "Applying MFRS 9 'Financial Instruments' with MFRS 4 'Insurance Contracts' " (effective from 1 January 2018) allows entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 before the forthcoming new insurance contracts standards. The Company has opted not to apply the exemptions permitted under this Amendment and will fully adopt MFRS 9 when it becomes effective on 1 July 2018.

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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)

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.

The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

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

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

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.

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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)

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. (cont'd)

Key provisions of the new standard are as follows (cont'd):

- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

The Company is in the process of finalising the financial implication arising from the adoption of this new standard and expects no significant impact to the fees and other income for 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)

(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.

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)

(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). (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.

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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 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.

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

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

The Company has opted not to apply the exemptions permitted under this Amendment and will fully adopt MFRS 9 when it becomes effective on 1 January 2018.

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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 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.

The Company has initiated the assessment of the potential impact arising from the adoption of MFRS 16. Due to the complexity of the requirements, the financial effects are still being assessed by the Company.

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

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

IC Interpretation 23 will be applied retrospectively.

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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 2019 (cont'd)

- Amendments to MFRS 9 'Prepayment features with negative compensation' (effective 1 January 2019) allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will be applied retrospectively.

- Annual Improvements to MFRSs 2015-2017 Cycle:

Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

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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)

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

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

The adoption of the above new accounting standards, amendments to published standards and interpretations are not expected to give rise to any material financial impact to the Company except for the cumulative impact on the adoption of MFRS 9 which will be recognised in retained earnings as at 1 July 2018, and enhanced disclosures. The financial impact of adoption of MFRS 16 and MFRS 17 is still being assessed by the Company.

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NOTES TO THE FINANCIAL STATEMENTS

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

(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.

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.

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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)

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(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.

(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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(e) Financial instruments (cont'd)

(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.

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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. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statement of income.

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 the fair value of derivatives in statement of income immediately.

The method of recognising the resulting fair value 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 its 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.

(a) Fair value hedge

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.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the statement of income based on recalculated effective interest rate method over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains as part of the carrying amount until the disposal of the equity security.

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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 that are readily convertible to known amount of cash which are subject to an insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS

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% (2017: 6%) and 5% (2017: 5%) 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 using the effective yield method.

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 HLFGB, for the Hong Leong Assurance Berhad ESOS, administered by an appointed trustee. The Company from time to time provides financial assistance to the trustee, based on the terms and conditions as agreed between HLFGB and the trustee, for the purchase of such number of HLFGB 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 HLFGB shares. The fair value of the employee services rendered in exchange for the grant of 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 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
Additions	-	-	-	-	38	3,040	349	2,534	5,961
Reclassification (Note 4)	1,151	-	1,610	-	10	(751)	-	(6,999)	(4,979)
At 30 June 2018	2,451	2,205	2,353	78,280	2,116	49,187	1,700	3,779	142,071

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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 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
Charge for the year	-	31	26	1,566	82	3,125	250	-	5,080
At 30 June 2018	-	673	138	15,274	1,743	39,940	869	-	58,637

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

	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					
Net carrying amount									
At 30 June 2017	1,300	1,563	631	64,572	407	10,083	732	8,244	87,532
At 30 June 2018	2,451	1,532	2,215	63,006	373	9,247	831	3,779	83,434

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

	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					
At cost									
At 30 June 2017	-	-	-	-	1,231	23,455	361	-	25,047
At 30 June 2018	-	-	-	-	1,310	24,365	361	-	26,036

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NOTES TO THE FINANCIAL STATEMENTS**4 . INTANGIBLE ASSETS**

	2018	2017
	RM'000	RM'000
Cost		
At 1 July	69,443	67,268
Additions	503	209
Reclassification (Note 3)	4,979	1,966
At 30 June	<u>74,925</u>	<u>69,443</u>
Accumulated amortisation		
At 1 July	65,702	63,520
Amortisation	2,682	2,182
At 30 June	<u>68,384</u>	<u>65,702</u>
Net carrying amount	<u>6,541</u>	<u>3,741</u>

5 . INVESTMENT PROPERTIES

	2018	2017
	RM'000	RM'000
At 1 July	496,624	491,334
Fair value gain	(2,460)	5,290
At 30 June	<u>494,164</u>	<u>496,624</u>
The analysis of investment properties is as follows:		
Freehold land and building	492,094	494,594
Leasehold land and building	2,070	2,030
	<u>494,164</u>	<u>496,624</u>

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

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NOTES TO THE FINANCIAL STATEMENTS**5. INVESTMENT PROPERTIES (CONT'D)**Valuation techniques adopted

Pursuant to MFRS 13 Fair Value Measurement, the Company establishes a fair value hierarchy that categories into three levels of inputs to valuation techniques used to measure fair value as disclosed in Note 33.

	2018	2017
	RM'000	RM'000
Level 1	-	-
Level 2	2,070	2,030
Level 3	492,094	494,594
	<u>494,164</u>	<u>496,624</u>

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

Valuation Technique	Unobservable input	2018	2017
Comparison &	Term Yield	4.55% - 6.86%	4.55% - 6.86%
Investment Method	Revisionary Rate	6.50% - 6.75%	6.50% - 6.75%

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

	2018	2017
	RM'000	RM'000
Rental income generated	16,773	26,328
Direct operating expenses	(9,827)	(10,546)
	<u>6,946</u>	<u>15,782</u>

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

	2018	2017
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	5,110,368	3,958,730
Corporate bonds	5,778,899	5,856,233
Equity securities	2,265,759	2,364,921
Unit trusts and real estate investment trusts	1,201,356	968,939
Policy loans and premium loans	564,369	584,546
Deposits with financial institutions	842,615	736,776
	<u>15,763,366</u>	<u>14,470,145</u>

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

	2018	2017
	RM'000	RM'000
HTM financial assets	611,075	611,211
AFS financial assets	10,904,597	10,348,635
FVTPL financial assets	3,401,161	2,584,119
Loans and receivables	846,533	926,180
	<u>15,763,366</u>	<u>14,470,145</u>

The following investments mature within 12 months:

AFS financial assets	1,222,041	1,045,711
FVTPL financial assets	260,133	45,713
Loans and receivables	846,533	926,180
	<u>2,529,134</u>	<u>2,017,604</u>

The following investments mature after 12 months:

HTM financial assets	410,648	611,211
AFS financial assets	9,682,556	9,302,924
FVTPL financial assets	3,141,028	2,538,406
	<u>13,234,232</u>	<u>12,452,541</u>

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

	2018	2017
	RM'000	RM'000
At amortised cost:		
Corporate bonds		
- Unquoted in Malaysia	611,075	611,211
	<u>611,075</u>	<u>611,211</u>
At fair value:		
Corporate bonds		
- Unquoted in Malaysia	620,605	626,197
	<u>620,605</u>	<u>626,197</u>

(b) AFS

	2018	2017
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	4,321,490	3,411,083
Corporate bonds		
- Unquoted in Malaysia	3,923,040	4,356,991
- Unquoted outside Malaysia	265,019	298,858
Equity securities		
- Quoted in Malaysia *	1,511,037	1,521,702
- Unquoted in Malaysia	2,147	2,147
- Quoted outside Malaysia	111,481	114,346
Unit trusts/ Real estate investment trusts ("REITS")		
- Quoted in Malaysia	766,431	634,568
- Quoted outside Malaysia	3,952	8,940
	<u>10,904,597</u>	<u>10,348,635</u>

* Includes Hong Leong Financial Group Berhad ("HLFG") ordinary shares held by MTrustee 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**

	2018	2017
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	788,878	547,647
Corporate bonds		
- Unquoted in Malaysia	979,765	564,612
- Unquoted outside Malaysia	-	24,561
Equity securities		
- Quoted in Malaysia	576,816	693,650
- Quoted outside Malaysia	64,278	33,076
Unit trusts/ REITS		
- Quoted in Malaysia	430,973	325,431
Fixed and call deposits		
- Licensed financial institutions	560,451	395,142
	<u>3,401,161</u>	<u>2,584,119</u>

(d) Loans and receivables

	2018	2017
	RM'000	RM'000
At cost:		
Fixed and call deposits		
- Licensed financial institutions	282,164	341,634
Policy loans	34,434	33,361
Premium loans	529,935	551,185
	<u>846,533</u>	<u>926,180</u>
At fair value:		
Fixed and call deposits		
- Licensed financial institutions	282,164	341,634
Policy loans	34,434	33,361
Premium loans	529,935	551,185
	<u>846,533</u>	<u>926,180</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 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 19)	-	-	128,793	-	128,793
Fair value gains recorded in other comprehensive income	-	238,140	-	-	238,140
Movement in impairment allowance (Note 21)	-	(45,874)	-	-	(45,874)
Movement in LAR	-	-	-	(426,286)	(426,286)
Accretion of discount, net of amortisation of premium (Note 17)	(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**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 2017	611,211	10,348,635	2,584,119	926,180	14,470,145
Purchases	-	3,585,243	1,803,171	-	5,388,414
Maturities	-	(1,034,846)	(48,936)	-	(1,083,782)
Disposals	-	(1,662,608)	(811,502)	-	(2,474,110)
Fair value gains transferred to income statement	-	(116,184)	-	-	(116,184)
Fair value losses recorded in income statement (Note 19)	-	-	(133,364)	-	(133,364)
Fair value losses recorded in other comprehensive income	-	(125,479)	-	-	(125,479)
Movement in impairment allowance (Note 21)	-	(68,381)	-	-	(68,381)
Movement in LAR	-	-	-	(77,859)	(77,859)
Accretion of discount, net of amortisation of premium (Note 17)	(136)	746	-	-	610
Movement in accrued interest	-	10,824	7,673	(1,788)	16,709
Currency translation differences	-	(33,353)	-	-	(33,353)
At 30 June 2018	<u>611,075</u>	<u>10,904,597</u>	<u>3,401,161</u>	<u>846,533</u>	<u>15,763,366</u>

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

	2018	2017
	RM'000	RM'000
Derivative assets		
Derivatives designated as fair value hedge:		
- Foreign currency forwards	586	-
- Cross-currency interest rate swaps	23,518	5,520
	<u>24,104</u>	<u>5,520</u>
Derivative liabilities		
Derivatives designated as fair value hedge:		
- Foreign currency forwards	1,668	1,338
- Cross-currency interest rate swaps	15,846	24,616
	<u>17,514</u>	<u>25,954</u>

The notional principal amount of the outstanding forward foreign exchange contracts at 30 June 2018 was RM405 million (2017: RM397 million).

	2018	2017
	RM'000	RM'000
Derivative assets maturing within 12 months	586	-
Derivative assets maturing after 12 months	23,518	5,520
	<u>24,104</u>	<u>5,520</u>
Derivative liabilities maturing within 12 months	1,668	1,339
Derivative liabilities maturing after 12 months	15,846	24,615
	<u>17,514</u>	<u>25,954</u>

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NOTES TO THE FINANCIAL STATEMENTS**7. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)****Fair value hedge**

Fair value hedges are used by the Company to protect against the changes in fair value of financial assets due to movements in the bond coupon rates and foreign exchange rates. The Company uses cross-currency interest rate swaps and foreign currency forwards to hedge against interest rate risk and foreign exchange risk of foreign corporate bonds, foreign equity securities and foreign REITS.

Included in the net non-interest income is the net realised and unrealised gains and losses arising from fair value hedges that were effective during the financial year as follows:

	2018	2017
	RM'000	RM'000
Gain on hedging instruments	39,708	-
Loss on hedged items attributable to the hedged risks	(42)	(21,964)
	<u>39,666</u>	<u>(21,964)</u>

8. INSURANCE RECEIVABLES

	2018	2017
	RM'000	RM'000
Due premium including agents/brokers and reinsurers balances	115,449	149,211
Allowance for impairment	(509)	(801)
	<u>114,940</u>	<u>148,410</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.

	2018	2017
	RM'000	RM'000
Gross amounts of recognised financial assets	166,077	201,601
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(50,628)	(52,390)
	<u>115,449</u>	<u>149,211</u>
Allowance for impairment	(509)	(801)
Net amounts of financial assets presented in the statement of financial position	<u>114,940</u>	<u>148,410</u>

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NOTES TO THE FINANCIAL STATEMENTS**9 . OTHER RECEIVABLES**

	2018	2017
	RM'000	RM'000
Investment income receivables	11,484	4,374
Amount due from fund managers	-	5,870
Investment debtors	51,912	25,828
Other receivables	16,737	13,234
Total other receivables	<u>80,133</u>	<u>49,306</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.

10 . SHARE CAPITAL

	2018		2017	
	No of shares '000	RM'000	No of shares '000	RM'000
Ordinary shares Issued and fully paid up:				
At 1 July/30 June	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

11 . 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.

	2018	2017
	RM'000	RM'000
At 1 July	69,625	47,936
Net (loss)/gain from change in fair value	(26,769)	36,784
Reclassification to net profit on disposal and impairment	(29,928)	(8,229)
Deferred taxation	13,526	(6,866)
At 30 June	<u>26,454</u>	<u>69,625</u>

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NOTES TO THE FINANCIAL STATEMENTS**12 . INSURANCE CONTRACT LIABILITIES**

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

	Gross		Re-insurance		Net	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	104,479	97,048	(24,576)	(21,528)	79,903	75,520
Actuarial liabilities (Note 30)	10,130,530	9,754,008	(25,332)	(23,061)	10,105,198	9,730,947
Unallocated surplus	426,603	145,026	-	-	426,603	145,026
Fair value adjustment on AFS financial assets	140,754	311,408	-	-	140,754	311,408
Net asset value attributable to unitholders (Note 33)	2,085,653	1,797,204	-	-	2,085,653	1,797,204
Life insurance contract liabilities	<u>12,888,019</u>	<u>12,104,694</u>	<u>(49,908)</u>	<u>(44,589)</u>	<u>12,838,111</u>	<u>12,060,105</u>

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NOTES TO THE FINANCIAL STATEMENTS**12 . 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 2016	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**12 . 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 2017	9,326,400	2,778,294	12,104,694	(1,113)	(43,476)	(44,589)	12,060,105
Change in non-economic assumptions and valuation methodology:							
Mortality and morbidity	-	(181)	(181)	-	-	-	(181)
Persistency	-	7,279	7,279	-	-	-	7,279
Expense	3	(625)	(622)	-	-	-	(622)
Partial Withdrawal	-	647	647	-	-	-	647
Premium Holiday	-	(140)	(140)	-	-	-	(140)
Bonus revision	(221,300)	-	(221,300)	-	-	-	(221,300)
GTL Loss Ratio	-	1,263	1,263	-	-	-	1,263
Others	29,621	4,202	33,823	-	(2,279)	(2,279)	31,544
Change in economic assumptions	-	(36,658)	(36,658)	-	482	482	(36,176)
Projected change for inforce policies at 30 June 2017	553,779	87,460	641,239	-	1,483	1,483	642,722
Experience variance	(151,892)	3,300	(148,592)	-	(199)	(199)	(148,791)
IBNR	-	5,503	5,503	-	-	-	5,503
Others - EMGS Inwards Reinsurance	-	23	23	-	-	-	23
New business	21,005	82,456	103,461	-	(1,758)	(1,758)	101,703
Change in unprocessed unit reserves	-	(9,223)	(9,223)	-	-	-	(9,223)
Change in provision for outstanding claims	(396)	7,827	7,431	(165)	(2,883)	(3,048)	4,383
Change in net asset value attributable to unitholders	-	288,449	288,449	-	-	-	288,449
Change in fair value of AFS financial assets	(170,654)	-	(170,654)	-	-	-	(170,654)
Change in unallocated surplus	281,577	-	281,577	-	-	-	281,577
At 30 June 2018	9,668,143	3,219,876	12,888,019	(1,278)	(48,630)	(49,908)	12,838,111

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NOTES TO THE FINANCIAL STATEMENTS**13 . DEFERRED TAX LIABILITIES**

	2018	2017
	RM'000	RM'000
At 1 July	(232,749)	(185,578)
Recognised in:		
Income statement (Note 23)	(20,796)	(34,294)
Other comprehensive income	27,838	(12,877)
At 30 June	<u>(225,707)</u>	<u>(232,749)</u>
Current	(510)	1,638
Non-current	<u>(225,197)</u>	<u>(234,387)</u>
	<u>(225,707)</u>	<u>(232,749)</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.

	2018	2017
	RM'000	RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	(229,731)	(238,312)
Deferred tax assets	4,024	5,563
	<u>(225,707)</u>	<u>(232,749)</u>

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NOTES TO THE FINANCIAL STATEMENTS**13 . 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 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>
At 1 July 2017	(175,696)	(7,453)	(55,163)	(238,312)
Recognised in:				
Income statement	(31,208)	197	11,754	(19,257)
Other comprehensive income	-	-	27,838	27,838
At 30 June 2018	<u>(206,904)</u>	<u>(7,256)</u>	<u>(15,571)</u>	<u>(229,731)</u>

Deferred tax assets

	Financial assets RM'000	Total RM'000
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>
At 1 July 2017	5,563	5,563
Recognised in:		
Income statement	(1,539)	(1,539)
At 30 June 2018	<u>4,024</u>	<u>4,024</u>

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NOTES TO THE FINANCIAL STATEMENTS**14 . INSURANCE PAYABLES**

	2018	2017
	RM'000	RM'000
Amount due to reinsurers and cedants	16,451	9,387
Amount due to agents	35,742	27,807
Amount due to insured	2,578,643	2,220,241
	<u>2,630,836</u>	<u>2,257,435</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.

	2018	2017
	RM'000	RM'000
Gross amounts of recognised financial liabilities	2,681,464	2,309,825
Less: Gross amounts of recognised financial assets set off in the statement of financial position	<u>(50,628)</u>	<u>(52,390)</u>
Net amounts of financial liabilities presented in the statement of financial position	<u>2,630,836</u>	<u>2,257,435</u>

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

	2018	2017
	RM'000	RM'000
Accruals*	216,543	208,978
Investment creditors	20,441	3,748
Rental deposits	6,968	7,051
Other payables	15,832	12,274
	<u>259,784</u>	<u>232,051</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 RM8,492,694 as at 30 June 2018 (2017: RM10,886,521).

16 . SUBORDINATED NOTES

	2018	2017
	RM'000	RM'000
RM500 million subordinated notes, at par	500,000	500,000
Add: interest payable	8,815	8,815
Less: unamortised incidental costs	(1,266)	(1,443)
	<u>507,549</u>	<u>507,372</u>
Payable within 12 months	8,815	8,815
Payable after 12 months	498,734	498,557
	<u>507,549</u>	<u>507,372</u>

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NOTES TO THE FINANCIAL STATEMENTS

16 . SUBORDINATED NOTES (CONT'D)

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.

Valuation techniques adopted

Pursuant to MFRS 13 Fair Value Measurement, the Company establishes a fair value hierarchy that categories into three levels of inputs to valuation techniques used to measure fair value as disclosed in Note 32.

- (a) There are no Sub-Notes categorise under Level 1.
- (b) Sub-Notes are included in Level 2 with carrying amount of RM489,019,797 (2017 : RM RM489,402,476). The fair value of Sub-Notes are estimated based on discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.
- (c) There are no Sub-Notes categorise under Level 3.

17 . INVESTMENT INCOME

	2018 RM'000	2017 RM'000
Interest income		
AFS financial assets	400,716	342,277
FVTPL financial assets	69,359	44,836
HTM financial assets	33,409	33,392
Fixed and call deposit	68,687	74,872
Policy loans and premium loans	27,454	29,066
Gross dividends		
AFS financial assets	94,417	93,448
FVTPL financial assets	27,232	20,708
Rental of properties	7,705	16,913
Accretion of discount, net of amortisation of premium		
AFS financial assets (Note 6(e))	746	1,032
HTM financial assets (Note 6(e))	(136)	(130)
	<u>729,589</u>	<u>656,414</u>

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NOTES TO THE FINANCIAL STATEMENTS**18 . REALISED GAINS AND LOSSES**

	2018	2017
	RM'000	RM'000
Property, plant and equipment		
Realised gains	-	199
Derivatives		
Realised gains/(losses)	12,644	(16,516)
AFS financial assets		
Realised gains:		
Equity securities		
- quoted in Malaysia	149,485	120,671
- quoted outside Malaysia	3,468	17,019
Unit trusts/ Reits		
- quoted in Malaysia	2,481	1,184
- quoted outside Malaysia	547	2,220
Corporate bonds		
- unquoted in Malaysia	2,523	6,295
- unquoted outside Malaysia	-	868
Realised losses:		
Equity securities		
- quoted in Malaysia	(40,823)	(9,292)
- quoted outside Malaysia	(76)	(746)
Unit trusts/ Reits		
- quoted in Malaysia	(27)	(83)
Corporate bonds		
- unquoted in Malaysia	(1,394)	(193)
	<u>116,184</u>	<u>137,943</u>

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NOTES TO THE FINANCIAL STATEMENTS**18 . REALISED GAINS AND LOSSES (CONT'D)**

	2018	2017
	RM'000	RM'000
FVTPL financial assets		
Realised gains:		
Equity securities		
- quoted in Malaysia	69,314	32,575
- quoted outside Malaysia	1,850	1,720
Unit trusts/ Reits		
- quoted in Malaysia	5,585	5,060
Corporate bonds		
- unquoted in Malaysia	967	1,871
- unquoted outside Malaysia	713	5,776
Negotiable instrument of deposit		
- in Malaysia	1,838	1,263
Realised losses:		
Equity securities		
- quoted in Malaysia	(58,956)	(22,971)
- quoted outside Malaysia	(2,516)	(1,301)
Unit trusts/ Reits		
- quoted in Malaysia	(394)	(269)
- quoted outside Malaysia	-	(752)
Corporate bonds		
- unquoted in Malaysia	(422)	(4,098)
- unquoted outside Malaysia	(909)	(825)
Negotiable instrument of deposit		
- in Malaysia	(2,393)	(1,239)
	<u>14,677</u>	<u>16,810</u>
Net realised gains	<u>143,505</u>	<u>138,436</u>

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NOTES TO THE FINANCIAL STATEMENTS**19 . FAIR VALUE GAINS AND LOSSES**

	2018	2017
	RM'000	RM'000
Fair value (losses)/gains:		
Investment properties (Note 5)	(2,460)	5,290
Derivatives	27,022	(5,448)
FVTPL financial assets (Note 6(e))	(133,364)	128,793
	<u>(108,802)</u>	<u>128,635</u>

20 . FEES AND COMMISSION INCOME

	2018	2017
	RM'000	RM'000
Policyholder administration and investment management service	9,629	6,255
Reinsurance commission income	3,482	8,610
	<u>13,111</u>	<u>14,865</u>

21 . OTHER OPERATING INCOME/(EXPENSES)-NET

	2018	2017
	RM'000	RM'000
Impairment on AFS financial assets (Note 6(e))	(68,381)	(45,874)
Foreign exchange		
- Realised gains	7,744	23,029
- Unrealised (losses)/gains	(33,388)	13,677
Other operating income	10,288	6,718
Other expenses	<u>(83,737)</u>	<u>(2,450)</u>

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NOTES TO THE FINANCIAL STATEMENTS**22 . MANAGEMENT EXPENSES**

	2018	2017
	RM'000	RM'000
Employee benefits expense (Note 22(a))	90,377	92,100
Directors' remuneration (Note 22(b))	4,789	4,482
Auditors' remuneration* :		
Audit related services	438	417
Non-audit related services	116	220
Depreciation of property, plant and equipment (Note 3)	5,080	5,460
Amortisation of intangible assets (Note 4)	2,682	2,182
Bad debts written back	-	(4)
(Written back)/allowance of impairment	(292)	56
Rental of offices	6,630	6,568
Entertainment and travelling	1,562	1,707
EDP expenses	8,691	7,676
Other expenses	57,697	57,290
	<u>177,770</u>	<u>178,154</u>

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

(a) Employee benefits expense

	2018	2017
	RM'000	RM'000
Wages, salaries and bonuses	76,779	72,148
Defined contribution retirement plan	12,479	11,178
Other employee benefits	1,119	8,774
	<u>90,377</u>	<u>92,100</u>

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NOTES TO THE FINANCIAL STATEMENTS**22 . MANAGEMENT EXPENSES (CONT'D)****(b) Directors' remuneration**

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

	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits in-kind RM'000	Total RM'000
2018				
Chief Executive Officer/ executive director:				
Loh Guat Lan:	3,526	-	629	4,155
Non-executive directors:				
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	13	152	-	165
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	15	153	-	168
YBhg Datin Ngiam Pick Ngoh	14	145	-	159
Shalet Marian	10	132	-	142
	<u>3,578</u>	<u>582</u>	<u>629</u>	<u>4,789</u>
2017				
Chief Executive Officer/ executive director:				
Loh Guat Lan:	3,195	-	805	4,000
Non-executive directors:				
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	-	137	-	137
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	-	130	-	130
YBhg Datin Ngiam Pick Ngoh	-	125	-	125
Shalet Marian	-	90	-	90
	<u>3,195</u>	<u>482</u>	<u>805</u>	<u>4,482</u>

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NOTES TO THE FINANCIAL STATEMENTS**22 . MANAGEMENT EXPENSES (CONT'D)****(b) Directors' remuneration (cont'd)**

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 intermediate holding company, HLA Holdings Sdn Bhd.

23 . TAXATION

	Attributable to participating fund and unitholders RM'000	Attributable to shareholders' fund RM'000	Total RM'000
2018			
Current income tax:			
Current financial year	46,019	34,327	80,346
Under/(over) provision in prior years	405	(4,027)	(3,622)
	<u>46,424</u>	<u>30,300</u>	<u>76,724</u>
Deferred tax:			
Origination and reversal of temporary differences (Note 13)	(11,675)	32,471	20,796
	<u>34,749</u>	<u>62,771</u>	<u>97,520</u>
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 13)	13,464	20,830	34,294
	<u>54,483</u>	<u>53,283</u>	<u>107,766</u>

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23 . TAXATION (CONT'D)

The income tax for the Shareholders' fund is calculated based on the tax rate of 24% (2017: 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% (2017: 8%) of the assessable investment income net of allowable deductions for the financial year. The taxes of the respective funds are disclosed in Note 33 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 surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	2018	2017
	RM'000	RM'000
Profit before taxation attributable to shareholders	<u>274,227</u>	<u>252,037</u>
Taxation at Malaysian statutory tax rate of 24%	65,814	60,489
Tax effects in respect of:		
Income not subject to tax	(27,619)	(17,579)
Expenses not deductible for tax purpose	22,499	16,930
Effect of difference in tax rate	6,104	(6,536)
Over provision in prior years	(4,027)	(21)
Tax expense for the financial year	<u><u>62,771</u></u>	<u><u>53,283</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

24 . DIVIDENDS

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

	2018 RM'000
In respect of the financial year ended 30 June 2017:	
- Single-tier dividend of 40.0 sen per share	80,000
	<u>80,000</u>
	2017 RM'000
In respect of the financial year ended 30 June 2016:	
- Single-tier dividend of 43.5 sen per share	87,000
	<u>87,000</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.

25 . 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 (2017: 200,000,000) ordinary shares in issue during the financial year.

	2018 RM'000	2017 RM'000
Net profit for the financial year	211,456	198,754
	<u>211,456</u>	<u>198,754</u>

26 . CAPITAL COMMITMENTS

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

	2018 RM'000	2017 RM'000
Authorised and contracted for:		
Property and equipment	304	2,709
Intangible assets	896	1,696
	<u>1,200</u>	<u>4,405</u>

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NOTES TO THE FINANCIAL STATEMENTS

27 . 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

27 . 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: <ul style="list-style-type: none">- 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**27 . 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:

	Immediate holding company RM'000	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties RM'000
2018				
Assets				
Financial assets	-	-	130,579	1,360,253
Receivables	-	-	14	2,418
Short term placements and fixed deposits	-	-	-	35
Cash and cash equivalents	-	-	-	402,440
	<u>-</u>	<u>-</u>	<u>130,593</u>	<u>1,765,146</u>
Liabilities				
Payables	<u>80</u>	<u>2</u>	<u>209</u>	<u>9,525</u>
2017				
Assets				
Financial assets	-	-	151,698	1,268,116
Receivables	-	-	10	595
Short term placements and fixed deposits	-	-	-	34
Cash and cash equivalents	-	-	-	913,598
	<u>-</u>	<u>-</u>	<u>151,708</u>	<u>2,182,343</u>
Liabilities				
Payables	<u>-</u>	<u>2</u>	<u>209</u>	<u>6,167</u>

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NOTES TO THE FINANCIAL STATEMENTS**27 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

	Immediate holding company RM'000	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties RM'000
2018				
Income				
Gross premium received/ receivable	-	123	61	39,699
Management and professional fee income	-	-	-	1,456
Rental income	-	1,691	403	13,788
Service support fees	321	-	-	2,654
Interest income	-	-	3,921	48,057
	<u>321</u>	<u>1,814</u>	<u>4,385</u>	<u>105,654</u>
Expenditure				
Gross premium paid	-	-	-	(256)
Commission paid/payable	-	-	-	(17,454)
Management and professional fee paid/payable	-	(480)	(1,916)	(3,957)
Authorised depository fee	-	-	-	(53)
Brokerage fee	-	-	-	(1,363)
Credit card merchant fees	-	-	-	(16,760)
Security guard services	-	-	-	(978)
Service support fees paid	-	-	-	(3,144)
Rental expenses	-	-	(98)	(422)
Logo fees	-	-	-	(13)
Bank charges	-	-	-	(304)
Custody Fee	-	-	-	(47)
Central depository fee	-	-	-	(8)
Office share services	-	-	(12)	-
Hotel Accomodation	-	-	-	(36)
	<u>-</u>	<u>(480)</u>	<u>(2,026)</u>	<u>(44,795)</u>

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NOTES TO THE FINANCIAL STATEMENTS**27 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

	Ultimate holding company RM'000	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	209	-	-	1,294
Interest income	-	-	3,900	42,948
Others	-	-	-	188
	<u>209</u>	<u>1,693</u>	<u>4,795</u>	<u>83,419</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>-</u>	<u>(480)</u>	<u>(923)</u>	<u>(41,630)</u>

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

The above significant related party transactions are primarily with related parties domiciled in Malaysia.

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NOTES TO THE FINANCIAL STATEMENTS**27 . 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:

	2018	2017
	RM'000	RM'000
Wages, salaries and bonuses	13,367	10,953
Defined contribution retirement plan	2,150	1,763
Other employee benefits	805	954
Directors' fees	582	482
	<u>16,904</u>	<u>14,152</u>
	Units	Units
	'000	'000
Share options exercised during the year	<u>1,260</u>	<u>-</u>
Included in the total key management personnel are:		
Directors' remuneration (Note 22(b))	<u>4,789</u>	<u>4,482</u>

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NOTES TO THE FINANCIAL STATEMENTS

28 . 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 Group Board Risk Management Committee ("GBRMC") 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 GBRMC meeting and communicated to the Board of Directors ("BOD").

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NOTES TO THE FINANCIAL STATEMENTS

28 . RISK MANAGEMENT FRAMEWORK (CONT'D)

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

29 . 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:

	2018	2017
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up) (Note 10)	200,000	200,000
- Reserves	3,760,891	3,461,839
Eligible Tier 2 capital		
- Eligible reserves	667,697	883,823
	<u>4,628,588</u>	<u>4,545,662</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended 2018 and 2017.

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NOTES TO THE FINANCIAL STATEMENTS**30 . 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
2018									
Whole Life	2,213,327	228,442	2,441,769	-	-	-	2,213,327	228,442	2,441,769
Endowment	3,059,524	211,503	3,271,027	-	-	-	3,059,524	211,503	3,271,027
Term	1,002,361	432,592	1,434,953	-	(25,332)	(25,332)	1,002,361	407,260	1,409,621
Accident and health	8,750	28,826	37,576	-	-	-	8,750	28,826	37,576
Annuity	444,818	2,847	447,665	-	-	-	444,818	2,847	447,665
Others	2,322,176	175,364	2,497,540	-	-	-	2,322,176	175,364	2,497,540
	9,050,956	1,079,574	10,130,530	-	(25,332)	(25,332)	9,050,956	1,054,242	10,105,198

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NOTES TO THE FINANCIAL STATEMENTS**30 . 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
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

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

30 . 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

30 . 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 after tax	Impact on equity
	%	RM'000	RM'000	RM'000	RM'000
2018					
Mortality and morbidity	+ 10	111,502	93,486	(61,723)	(61,723)
Mortality and morbidity	- 10	(101,812)	(83,760)	53,839	53,839
Discount rate	- 0.5	220,399	219,461	(60,903)	(60,903)
Expenses	+ 10	31,333	31,324	(15,240)	(15,240)
Lapse and surrender	+ 10	(10,729)	(10,356)	(10,787)	(10,787)
Lapse and surrender	- 10	9,893	9,511	12,573	12,573
2017					
Mortality and morbidity	+ 10	95,001	78,247	(47,146)	(47,146)
Mortality and morbidity	- 10	(89,080)	(72,282)	42,054	42,054
Discount rate	- 0.5	292,498	291,676	(55,763)	(55,763)
Expenses	+ 10	34,008	34,008	(14,438)	(14,438)
Lapse and surrender	+ 10	(23,673)	(23,151)	(9,943)	(9,943)
Lapse and surrender	- 10	23,819	23,278	11,700	11,700

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

31 . 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**31 . 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
2018							
HTM financial assests	375,181	-	-	235,894	-	-	611,075
AFS financial assets	3,681,150	299,116	152,866	4,376,417	2,395,048	-	10,904,597
FVTPL financial assets	1,501,057	39,161	-	788,876	1,072,067	-	3,401,161
Loan and receivables	264,114	-	-	582,419	-	-	846,533
Derivatives	24,104	-	-	-	-	-	24,104
Reinsurance assets	7,108	-	-	42,800	-	-	49,908
Insurance receivables	357	-	-	113,516	-	1,067	114,940
Other receivables *	-	-	-	75,745	-	-	75,745
Cash and cash equivalents	1,594,449	-	-	166	-	-	1,594,615
	7,447,520	338,277	152,866	6,215,833	3,467,115	1,067	17,622,678

* Other receivables as at 30 June 2018 excluded prepayment, GST recoverable & deposit of RM4,387,572.

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NOTES TO THE FINANCIAL STATEMENTS**31 . 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
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**31 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)**

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

	2018	2017
	RM'000	RM'000
Insurance receivables		
31 to 60 days	6	3,769
61 to 90 days	66	978
> 90 days	995	1,472
	<u>1,067</u>	<u>6,219</u>

Impaired financial assets

At 30 June 2018, there are impaired insurance receivables of RM509,211 (2017: RM801,265) and impaired AFS financial assets of RM45,836,880 (2017: RM142,209,995). 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**31 . 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	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July	801	745	142,210	170,514	143,011	171,259
(Write back)/charge for the financial year	(292)	56	68,381	45,874	68,089	45,930
Realised for the financial year	-	-	(65,014)	(74,178)	(65,014)	(74,178)
At 30 June	509	801	145,577	142,210	146,086	143,011

(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**31 . 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
2018						
HTM financial assets	611,075	200,427	50,646	360,002	-	611,075
AFS financial assets	10,904,597	1,222,041	1,588,805	5,698,703	2,395,048	10,904,597
FVTPL financial assets	3,401,161	260,133	551,125	1,517,836	1,072,067	3,401,161
Loan and receivables	846,533	846,533	-	-	-	846,533
Derivative assets	24,104	586	16,321	7,197	-	24,104
Reinsurance assets	49,908	49,908	-	-	-	49,908
Insurance receivables	114,940	114,940	-	-	-	114,940
Other receivables *	75,745	75,745	-	-	-	75,745
Cash and cash equivalents	1,594,615	1,594,615	-	-	-	1,594,615
Total financial assets	17,622,678	4,364,928	2,206,897	7,583,738	3,467,115	17,622,678

* Other receivables as at 30 June 2018 excluded prepayment, GST recoverable & deposit of RM4,387,572.

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NOTES TO THE FINANCIAL STATEMENTS**31 . 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
2017						
HTM financial assets	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**31 . 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
2018					
Insurance contract liabilities: *					
-With DPF	9,527,391	546,214	2,610,091	17,622,715	20,779,020
-Without DPF	3,219,874	2,252,337	288,397	2,607,780	5,148,514
Insurance payables	2,630,836	2,630,836	-	-	2,630,836
Other payables	259,784	259,784	-	-	259,784
Derivative liabilities	17,514	1,668	-	15,846	17,514
Subordinated notes	507,549	22,323	89,354	544,781	656,458
Total financial liabilities	<u>16,162,948</u>	<u>5,713,162</u>	<u>2,987,842</u>	<u>20,791,122</u>	<u>29,492,126</u>

* Excluding AFS reserve.

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NOTES TO THE FINANCIAL STATEMENTS**31 . 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
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	22,200	89,354	567,227	678,781
Total financial liabilities	<u>14,816,098</u>	<u>4,588,751</u>	<u>2,358,952</u>	<u>20,815,246</u>	<u>27,762,949</u>

* Excluding AFS reserve.

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NOTES TO THE FINANCIAL STATEMENTS

31 . 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**31 . 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
2018	
Singaporean dollar	28,688
US dollar	265,277
Australian dollar	21,504
Euro	1
Hong Kong dollar	130,786
Total	<u>446,256</u>
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>

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

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NOTES TO THE FINANCIAL STATEMENTS**31 . 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 after 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 after tax	Impact on equity *
		RM'000	RM'000
2018			
Change in currency rates:			
Singaporean dollar	+ 5%	(162)	(162)
US dollar	+ 5%	(449)	(449)
Hong Kong dollar	+ 5%	(345)	(345)
Singaporean dollar	- 5%	162	162
US dollar	- 5%	449	449
Hong Kong dollar	- 5%	345	345
2017			
Change in currency rates:			
Singaporean dollar	+ 5%	(355)	(355)
US dollar	+ 5%	(516)	(516)
Hong Kong dollar	+ 5%	(331)	(331)
Singaporean dollar	- 5%	355	355
US dollar	- 5%	516	516
Hong Kong dollar	- 5%	331	331

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

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NOTES TO THE FINANCIAL STATEMENTS

31 . 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 after 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 profit after tax		Impact on equity*	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Change in interest rate:				
+ 100 basis point	(84,276)	(61,304)	(104,436)	(87,659)
- 100 basis point	97,081	72,378	119,427	101,398

* 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

31 . 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 bimonthly 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 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*	
	2018	2017
	RM'000	RM'000
Change in equity market price:		
+ 20%	36,171	54,280
- 20%	(36,171)	(54,280)

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

The above impact on equity arose from the investments in equities which are classified as available-for-sale financial assets. The impact arising from changes in price risk to FVTPL equities of the investment-linked funds are retained in the insurance contract liabilities, and hence there is no impact on profit after tax.

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

31 . 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

32 . 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**32 . FAIR VALUE HIERARCHY (CONT'D)****(a) Fair value of financial instruments carried at fair value**

	Financial assets		
	AFS RM'000	FVTPL RM'000	Total RM'000
2018			
<u>Recurring fair value measurements</u>			
Level 1	2,392,901	1,072,067	3,464,968
Level 2	8,509,549	2,329,094	10,838,643
Level 3	2,147	-	2,147
	10,904,597	3,401,161	14,305,758
	10,904,597	3,401,161	14,305,758
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
	10,348,635	2,584,119	12,932,754
	10,348,635	2,584,119	12,932,754
		Derivatives assets RM'000	Derivatives liabilities RM'000
2018			
<u>Recurring fair value measurements</u>			
Level 2		24,104	17,514
		24,104	17,514
		24,104	17,514
2017			
<u>Recurring fair value measurements</u>			
Level 2		5,520	25,954
		5,520	25,954
		5,520	25,954

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NOTES TO THE FINANCIAL STATEMENTS**32 . FAIR VALUE HIERARCHY (CONT'D)****(b) Fair value of financial assets carried at amortised cost**

	HTM RM'000
2018	
<u>Recurring fair value measurements</u>	
Level 2	620,605
	<u>620,605</u>
2017	
<u>Recurring fair value measurements</u>	
Level 2	626,197
	<u>626,197</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**33 . INSURANCE FUNDS**

The Company's activities are organised by funds and segregated into the Life Fund and Shareholders' Fund 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 and Shareholders' Fund. 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 2018

	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	2,177	81,257	-	-	83,434
Intangible assets	-	6,541	-	-	6,541
Investment properties	231,594	262,570	-	-	494,164
Financial assets	859,231	13,021,130	1,883,005	-	15,763,366
- HTM financial assets	-	611,075	-	-	611,075
- AFS financial assets	859,195	10,045,402	-	-	10,904,597
- FVTPL financial assets	-	1,534,896	1,866,265	-	3,401,161
- Loans and receivables	36	829,757	16,740	-	846,533
Derivative assets	-	24,104	-	-	24,104
Reinsurance assets	-	49,908	-	-	49,908
Insurance receivables	-	114,940	-	-	114,940
Other receivables	1,282,974	58,997	18,441	(1,280,279)	80,133
Non-current assets held-for-sale	60	-	-	-	60
Cash and cash equivalents	22,904	1,374,107	197,604	-	1,594,615
Total assets	2,398,940	14,993,554	2,099,050	(1,280,279)	18,211,265

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NOTES TO THE FINANCIAL STATEMENTS**33 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2018 (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	1,460,374	-	-	-	1,460,374
Total equity	1,660,374	-	-	-	1,660,374
Insurance contract liabilities	-	10,802,366	2,085,653	-	12,888,019
Deferred tax liabilities	211,131	12,104	2,472	-	225,707
Tax payables	8,304	8,710	4,468	-	21,482
Insurance payables	-	2,630,836	-	-	2,630,836
Other payables	11,480	1,522,745	5,838	(1,280,279)	259,784
Derivative liabilities	102	16,793	619	-	17,514
Subordinated notes	507,549	-	-	-	507,549
Total policyholders' fund and liabilities	738,566	14,993,554	2,099,050	(1,280,279)	16,550,891
Total equity, policyholders' fund and liabilities	2,398,940	14,993,554	2,099,050	(1,280,279)	18,211,265

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NOTES TO THE FINANCIAL STATEMENTS**33 . INSURANCE FUNDS (CONT'D)****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**33 . 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**33 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Gross earned premiums	-	2,368,022	582,102	-	2,950,124
Premiums ceded to reinsurers	-	(86,517)	-	-	(86,517)
Net earned premiums	-	2,281,505	582,102	-	2,863,607
Investment income	38,219	647,959	43,411	-	729,589
Realised gains	30,789	95,312	17,404	-	143,505
Fair value (losses)/gains	(42)	20,441	(129,201)	-	(108,802)
Fees and commission income	-	27,274	-	(14,163)	13,111
Other revenue	68,966	790,986	(68,386)	(14,163)	777,403
Gross benefits and claims paid	-	(1,535,980)	(193,416)	-	(1,729,396)
Claims ceded to reinsurers	-	60,382	-	-	60,382
Gross change to contract liabilities	-	(658,099)	(288,449)	-	(946,548)
Change in contract liabilities ceded to reinsurers	-	2,271	-	-	2,271
Net claims	-	(2,131,426)	(481,865)	-	(2,613,291)
Fees and commission expense	1,249	(435,808)	(14,163)	14,163	(434,559)
Management expenses	(4,121)	(168,598)	(5,051)	-	(177,770)
Other operating expenses-net	(5,547)	(58,802)	(19,388)	-	(83,737)
Other expenses	(8,419)	(663,208)	(38,602)	14,163	(696,066)
Finance costs	(22,677)	-	-	-	(22,677)
Profit from operations	37,870	277,857	(6,751)	-	308,976

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NOTES TO THE FINANCIAL STATEMENTS**33 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUND****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018 (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	37,870	277,857	(6,751)	-	308,976
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	111,672	(111,672)	-	-	-
Profit before taxation	149,542	166,185	(6,751)	-	308,976
Taxation	(54,045)	(50,226)	6,751	-	(97,520)
Net profit for the financial year	95,497	115,959	-	-	211,456

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NOTES TO THE FINANCIAL STATEMENTS**33 . 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	7,936	115,448	15,052	-	138,436
Fair value gains/(losses)	4,804	(21,153)	144,984	-	128,635
Fees and commission income	-	26,973	-	(12,108)	14,865
Other revenue	48,383	707,373	194,702	(12,108)	938,350
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	294	(2,824)	80	-	(2,450)
Other expenses	(11,029)	(611,488)	(16,709)	12,108	(627,118)
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**33 . 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 . 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:

	2018	2017
	RM'000	RM'000
<u>Statement of financial position</u>		
Assets		
Financial assets - FVTPL financial assets	3,358	3,782
Liabilities		
Tax payables	(10)	(12)
Deferred tax liabilities	(8)	9
Total liabilities	(18)	(3)
Net asset value	3,376	3,785
<u>Statement of comprehensive income</u>		
Realised gains/(losses)	32	(26)
Fair value (losses)/gains	(229)	519
Other revenue	(197)	493
Gross benefits and claims paid	(228)	(468)
Gross change to contract liabilities	409	14
Net claims	181	(454)
(Losses)/profit before taxation	(16)	39
Taxation	16	(39)
Net profit for the financial year	-	-

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NOTES TO THE FINANCIAL STATEMENTS

35 . 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 HLFGL.

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.

In the event of a rights issue, adjustments (if any) may be made to the number of HLFGL shares relating to an option or any portion thereof that is unexercised or the option price.

Options granted on 2 April 2015 ("Options 2015")

There were 13,200,000 options granted at an exercise price of RM16.88 under the ESOS 2013/2023 on 2 April 2015 which will fully expire in June 2020.

The vesting period of the options range from 3.20 to 5.20 years from grant date. The weighted average remaining option life as at 30 June 2018 is 1.29 years.

On 9 November 2015, the exercise price for the share options granted on 2 April 2015 under the scheme was adjusted from RM16.88 to RM16.61 and additional share options of 189,819 were allotted to the option holders, in accordance with the provisions of the Bye-Laws governing the Executive Share Scheme ("ESS").

Options granted on 30 March 2018 ("Options 2018")

There were 10,450,000 options granted at an exercise price of RM17.12 under the ESOS 2013/2023 on 30 March 2018 which will fully expire in June 2023.

The vesting period of the options range from 1.70 to 5.70 years from grant date. The weighted average remaining option life as at 30 June 2018 is 3.37 years.

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NOTES TO THE FINANCIAL STATEMENTS**35 . EQUITY COMPENSATION BENEFITS (CONT'D)****EXECUTIVE SHARE OPTION SCHEME (CONT'D)****ESOS 2013/2023 (cont'd)**

A trust has been set up for the ESS and it is administered by an appointed trustee.

The number of the ordinary shares held by the Trustee are as follows:

	2018	2017
	'000 units	'000 units
As at 1 July	3,964	3,964
Exercised	(1,446)	-
As at 30 June	<u>2,518</u>	<u>3,964</u>

The remaining number of outstanding options are as follows:

	Options 2015		Options 2018	
	2018	2017	2018	2017
	'000 units	'000 units	'000 units	'000 units
As at 1 July	10,570	11,688	-	-
Granted	-	-	10,450	-
Exercised	(1,446)	-	-	-
Ceased/forfeited	(6,955)	(1,118)	(700)	-
As at 30 June	<u>2,169</u>	<u>10,570</u>	<u>9,750</u>	<u>-</u>
Exercisable as at 30 June	-	-	-	-

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:

	Options 2015		Options 2018	
	2018	2017	2018	2017
Fair value of share options (RM)	2.30 - 2.90	0.94 - 1.97	2.16 - 3.90	-
Share price at valuation date (RM)	18.00	16.80	18.00	-
Adjusted exercise price (RM)	16.61	16.61	-	-
Original exercise price (RM)	16.88	16.88	17.12	-
Expected volatility (%)	21.37	17.28	21.37	-
Weighted average dividend yield (%)	2.25	2.28	2.25	-
Weighted average risk free rate (%)	3.35	3.10	3.35	-

During the financial year, the Company had recognised share-based compensation income amounting to RM2,393,827 (share-based compensation expense for 2017: RM5,488,811).