

**COMPANY NUMBER (94613-X)**

**HONG LEONG ASSURANCE BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019**

**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 2019**

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2019.

#### **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**

**221,050**

#### **DIVIDENDS**

Since the last financial year ended 30 June 2018, a final single tier dividend of 50.0 sen per share amounting to RM100,000,000 in respect of the financial year ended 30 June 2018, was paid on 22 October 2018.

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").

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 2019 (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 interest of other stakeholders.

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

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (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 has 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 was reviewed periodically by the Board. The Board Charter is published on the Company's website. The key roles and responsibilities of the Board broadly cover 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 as specified in the 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 and internal controls to the Group Board Audit Committee ("GBAC") under HLA Holdings Sdn Bhd ("HLAH"); and risk management to the Group Board Risk Management Committee ("GBRMC") under 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.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. 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](http://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.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

##### **II Board Composition**

The Board currently comprises seven (7) Directors. The seven (7) Directors are made up of one (1) Executive Director and six (6) Non-Executive Directors, of whom four (4) are independent.

The Company is guided by BNM CG Policy 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 to 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 July 2019, 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 Group's strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.



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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### A. Board (cont'd)

##### III Board Meetings

The Board met five (5) times during the financial year ended 30 June 2019 with timely notices of issues to be discussed. Details of attendance of each directors are as follows:

<u>Directors</u>	<u>Attendance</u>
YBhg Tan Sri Quek Leng Chan (Chairman)	5/5
Mr Tan Kong Khoon	5/5
Mr Masakatsu Komaita	5/5
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
YBhg Datin Ngiam Pick Ngoh	5/5
Ms Shalet Marian	5/5

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Profile**

###### **YBHG TAN SRI QUEK LENG CHAN**

**Chairman/Non-Executive/Non-Independent**

**Age 76, 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 ("RC") 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 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Profile (cont'd)**

###### **MR TAN KONG KHOON**

**Executive Director/Non-Independent**

**Age 62, 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 HLFG. He was the Group Managing Director/Chief Executive Officer of HLB from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of 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 NC of HLA.

Mr Tan is the Chairman of Hong Leong Capital Berhad and a Director of HLFG and HLB, both 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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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Profile (cont'd)**

###### **MR MASAKATSU KOMAITA**

**Non-Executive Director/Non-Independent**

**Age 57, Male, Japanese**

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 32 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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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Profile (cont'd)**

###### **YBHG DATO' SIOW KIM LUN @ SIOW KIM LIN**

**Non-Executive Director/Independent**

**Age 69, 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 was appointed to the Board of HLA on 30 September 2011. He is a member of the RC of HLA and also a member of the GBAC and the GBRMC of HLAH.

YBhg Dato' Siow is currently the Chairman to the Board of HLAH and is a board member of EITA Resources Berhad, Eco World International Berhad, Sunway Construction Group Berhad, MainStreet Advisers Sdn Bhd and Radiant Globaltech Berhad.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Profile (cont'd)**

###### **YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN**

**Non-Executive Director/Independent**

**Age 61, 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 Fellow of the Institute of Corporate Directors Malaysia, 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 NC and a member of the RC of HLA. He is also a member of the GBAC and GBRMC of HLAH.

YM Tunku Dato' Mahmood Fawzy is the Chairman of HLMT and an Independent Director of Hong Leong Asset Management Bhd and also the Chairman of Deutsche Bank (Malaysia) Berhad.

He was previously the Chairman of VADS Berhad, a wholly-owned subsidiary of Telekom Malaysia Berhad ("TM"), the Senior Independent Director of TM, 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, Webe Digital Sdn Bhd, a subsidiary of TM Group of companies, Energy Africa Limited and Engen Limited in South Africa.

YM Tunku Dato' Mahmood Fawzy draws on a wealth of strategy, 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 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Profile (cont'd)**

**YBHG DATIN NGIAM PICK NGOH**  
**Non-Executive Director/Independent**  
**Age 64, 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 appointed to the Board of HLA on 1 June 2012 and is a member of the NC of HLA. She is also a member of the GBRMC of HLAH.

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 and is the Vice-Chairman of Make-A-Wish Malaysia.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Profile (cont'd)**

###### **MS SHALET MARIAN**

**Non-Executive Director/Independent**

**Age 63, 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. She obtained the Human Resources Development Fund (HRDF) Certification in Training in 2017.

Ms Shalet Marian was appointed to the Board of HLA on 16 June 2016 and is a member of the GBAC of HLAH.

Currently, Ms Shalet Marian serves on the Board of 7-Eleven Malaysia Holdings Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad as an 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 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. 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 30 June 2019, the Directors received regular briefings and updates on the Company's businesses, operations, risk management and compliance, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its Directors and senior management.

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

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

###### **Directors' Training (cont'd)**

During the financial year ended 30 June 2019, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Bursa Malaysia - Sustainability Engagement Series for Directors/ Chief Executive Officers 2018
- FIDE Forum - Blockchain in Financial Services Industry by IBM Experts
- ICLIF - FIDE Elective Programme: Emerging Risks, the Future Board and Return on Compliance
- Capital Market Forum - Business Foresight Forum 2018 (BFF 2018)
- Suruhanjaya Syarikat Malaysia (SSM) National Conference 2018 - Doing Business in the Age of Disruption
- FIDE Forum - IBM THINK Malaysia
- Briefing on Cyber Risk Awareness
- AMLATFPUAA 2001 (Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001) - Managing Challenges in Risk Based Approach & Politically Exposed Person
- Khazanah National - Khazanah Megatrends Forum 2018
- Malaysian Institute of Accountants ("MIA") International Conference 2018
- Bursa Malaysia - Independent Directors' Program: The Essence of Independence
- Institute of Corporate Directors Malaysia ("ICDM") - Stakeholders Engagement for Directors
- ICDM - Effective Board in a Volatile, Uncertain, Complex and Ambiguous (VUCA) World
- AMLATFPUAA 2001: Risk, Challenges & Vulnerabilities Towards Risk Based Approach
- University Kebangsaan Malaysia (UKM) - The 3<sup>rd</sup> Chancellor Tuanku Muhriz Lecture
- ICDM - 'Would A Business Judgement Rule Help Directors Sleep Better At Night?'
- ICLIF - Let's Get Real on Anti-Bribery
- KPMG - Audit Committee Institute Breakfast Round Table on Money Laundering & Tax Risk Management
- ICDM - 'Revisiting the Misconception of Board Remuneration by Mark Reid'
- Corporate Liability under the MACC Act 2018
- Malaysia Industrial Development Finance Bhd ("MIDF") - Green Conference Financing for the Future
- Directors' Duties & Powers - Recent Developments in the Law and How It Affects You
- MIDF - Dealing with the Rising Cost of Living
- ICLIF - Kuala Lumpur Islamic Finance Forum
- World Bank & SC - Islamic Finance - Financial Inclusion
- MIA - Integrated Reporting
- ICLIF - CG Watch: How Does Malaysia Rank?

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees**

Board committees have been established by the Board to assist in the discharge of its duties.

##### **(a) 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)

YBhg Dato Siow Kim Lun @ Siow Kim Lin

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

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

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

Ms Shalet Marian

(Independent Non-Executive Director of HLA)

Mr Martin Giles Manen

(Independent Non-Executive Director of HLMT)

##### **SECRETARY**

The Secretary(ies) to the GBAC are the Company Secretary(ies) of the Company.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees (cont'd)**

###### **(a) GBAC of HLAH (cont'd)**

###### **Terms of Reference**

The primary functions and responsibilities of the GBAC are set out in the TOR 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**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees (cont'd)**

###### **(a) 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.
- To satisfy itself that the internal audit function is effective by establishing a mechanism to assess its performance and effectiveness.
- To ensure that the terms and scope of the engagement, the working arrangements with the internal auditors and reporting requirements are clearly established when engaging external experts, where the internal audit function lacks the expertise needed to perform the audit of specialized areas.
- Other audit functions as may be agreed to by the GBAC and the Board of HLAH and its subsidiaries.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees (cont'd)**

###### **(a) 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 HLFG Group-wide policies.
- HLAH, as the financial holding company of the Insurance and Takaful entities of the HLFG Group ("Insurance Group") shall align the responsibilities as set out above for the Insurance Group.

###### **Authority**

The GBAC is authorised by the Board of HLAH and its subsidiaries to review any activity of the Group within its Terms of Reference. It is authorised to seek any information it requires from any Director or member of the management and all employees are directed to co-operate with any request made by the GBAC.

The GBAC is authorised by the Board of HLAH and its subsidiaries to obtain independent legal or other professional advice if it considers necessary.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees (cont'd)**

###### **(a) GBAC of HLAH (cont'd)**

###### **Terms of Reference (cont'd)**

###### **Meetings**

The GBAC meets at least six (6) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board of HLAH and its subsidiaries for approval.

The Group Managing Director/ Chief Executive Officer, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Insurance Audit, other senior management and external auditors may be invited to attend the GBAC meetings, whenever required.

At least twice a year, the GBAC will have separate sessions with the external auditors without the presence of Executive Directors and management.

Issues raised, discussions, deliberations, decisions and conclusions made at the GBAC meetings are recorded in the minutes of the GBAC meetings. A GBAC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the GBAC meeting where the material transaction or material arrangement is being deliberated by the GBAC.

Majority with at least one representative from each of the BNM regulated entities in the HLAH Group in Malaysia, who shall be independent and non-executive, shall constitute a quorum.

After each GBAC meeting, the GBAC shall report and update the Board of each of the BNM regulated entities in the HLAH Group in Malaysia on significant issues and concerns discussed during the GBAC meetings and where appropriate, make the necessary recommendations to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia.

## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

###### (a) GBAC of HLAH (cont'd)

###### Terms of Reference (cont'd)

###### Activities

The GBAC carried out its duties in accordance with its TOR.

During the financial year ended 30 June 2019, five (5) GBAC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Lim Tau Kien	5/5
YBhg Dato Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
Ms Shalet Marian	5/5
Mr Martin Giles Manen	5/5

###### 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 2019, IAD carried out its duties covering key audit areas on agency, product development, actuarial pricing, investment, information systems, branches, outsourced service providers and regulatory compliance audit. These audits are performed in line with BNM Guidelines on Internal Audit Function.

The cost incurred for the internal audit function in respect of the current financial year was RM803,461 (2018: RM1,091,000).



## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees (cont'd)**

##### **(b) 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)

YBhg Dato Siow Kim Lun @ Siow Kim Lin

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

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

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

YBhg Datin Ngiam Pick Ngoh

(Independent Non-Executive Director of HLA)

Encik Zulkiflee bin Hashim

(Independent Non-Executive Director of HLMT)

(Appointed with effect from 28 May 2019)

Dr Aznan bin Hasan

(Independent Non-Executive Director of HLMT)

(Resigned with effect from 16 April 2019)

##### **SECRETARY**

The Secretary to the GBRMC is the Chief Risk Officer of HLA.

## HONG LEONG ASSURANCE BERHAD

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) GBRMC of HLAH (cont'd)

###### Terms of reference

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

###### Risk Management

- To review management's activities in managing principal risks such as credit, market, liquidity, operational, compliance, Shariah 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 HLAH and its subsidiaries 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, Approach to Regulating and Supervising Financial Groups, Corporate Governance and Shariah Governance Framework.

## HONG LEONG ASSURANCE BERHAD

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) 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 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) 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 HLFG Group-wide policies.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees (cont'd)**

##### **(b) GBRMC of HLAH (cont'd)**

###### **Terms of reference of (cont'd)**

###### **Group Governance (cont'd)**

- HLAH, as the financial holding company of the Insurance and Takaful entities of the Insurance Group shall align the responsibilities as set out above for the Insurance Group.

###### **Authority**

The GBRMC is authorised by the Board of HLAH and its subsidiaries to review any activity of HLAH and its subsidiaries within its TOR. It is authorised to seek any information it requires from any Director or member of the management and all employees are directed to co-operate with any request made by the GBRMC.

The GBRMC is authorised by the Board of HLAH and its subsidiaries to obtain independent legal or other professional advice if it considers necessary.

###### **Meetings**

The GBRMC meets at least six (6) times a year and additional meetings may be called at any time as and when necessary.

The Group Managing Director/ Chief Executive Officer, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Insurance Audit and other senior management may be invited to attend the GBRMC meetings, whenever required.

Issues raised, discussions, deliberations, decisions and conclusions made at the GBRMC meetings are recorded in the minutes of the GBRMC meetings. A GBRMC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the GBRMC meeting where the material transaction or material arrangement is being deliberated by the GBRMC.

Majority with at least one representative from each of the BNM regulated entities in the HLAH Group in Malaysia, who shall be independent and non-executive, shall constitute a quorum.

After each GBRMC meeting, the GBRMC shall report and update the Board of each of the BNM regulated entities in the HLAH Group in Malaysia on significant issues and concerns discussed during the GBRMC meetings and where appropriate, make the necessary recommendations to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia.

## HONG LEONG ASSURANCE BERHAD

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) GBRMC of HLAH (cont'd)

###### Terms of reference of (cont'd)

###### Activities

The GBRMC carried out its duties in accordance with its TOR.

During the financial year ended 30 June 2019, five (5) GBRMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Koid Swee Lian	5/5
YBhg Dato Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
YBhg Datin Ngiam Pick Ngoh	5/5
Encik Zulkiflee bin Hashim (Appointed with effect from 28 May 2019)	*
Dr Aznan bin Hasan (Resigned with effect from 16 April 2019)	4/4

Note:

\* The GBRMC meetings were held before Encik Zulkiflee bin Hashim's appointment.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **B. Board Committees (cont'd)**

##### **(c) NC**

The composition of the NC is as follows:

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin  
(Chairman, Independent Non-Executive Director)

Mr Tan Kong Khoon  
(Non-Independent Executive Director)

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

#### **SECRETARY**

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the NC.

#### **Terms of Reference**

The primary functions and responsibilities of the NC are set out in the TOR as follows:

The NC'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.

## HONG LEONG ASSURANCE BERHAD

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (c) NC (cont'd)

During the financial year ended 30 June 2019, three (3) NC 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

##### (d) RC

The composition of the RC is 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)

#### SECRETARY

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the RC.

#### Terms of Reference

The primary functions and responsibilities of the RC are set out in the TOR as follows:

The RC'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.



## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (d) RC (cont'd)

###### Terms of Reference (cont'd)

- (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.

During the financial year ended 30 June 2019, one (1) RC 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	1/1
YBhg Tan Sri Quek Leng Chan	1/1
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	1/1

The Group's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of Non-Executive Directors reflects the scope of responsibilities and commitment undertaken by them.

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

##### Disclosure

The detailed remuneration of each Director during the financial year ended 30 June 2019 is set out in Note 22(b) to the financial statements.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **B. Board Committees (cont'd)**

##### **(d) RC (cont'd)**

###### **Remuneration Policy**

HLA's remuneration strategy supports and promotes a high performance culture to deliver HLA's vision to be a highly digital and innovative insurer. It also forms a key part of our Employer Value Proposition with the aim to drive the right behaviours, create a workforce of strong values, high integrity, clear sense of responsibility and high ethical standards.

The remuneration framework provides a balanced approach between fixed and variable components that is measured using a robust and rigorous performance management process which incorporates meritocracy in performance, HLA values, key behaviours in accordance to our Code of Conduct and risk and compliance management as part of the key performance indicators for remuneration decisions.

The remuneration framework also reinforces a strong internal governance on performance and remuneration of control functions which are measured and assessed independently from business units/ functions they support to avoid any conflict of interests. The framework stipulates that for effective segregation these staff will be appraised principally based on achievement of their control objectives.

The remuneration process includes strict adherence to regulatory requirements and active oversight by the Board where the remuneration of Chief Executive Officer, senior management officers and other material risk takers are reviewed and approved by the Remuneration Committee and Board annually. HLA maintains and regularly reviews a list of officers who fall within the definition of "other material risk takers".

###### **Key components of remuneration structure**

The overall total compensation for HLA generally includes base salary, fixed allowances, performance-based variable pay and employee benefits.

- **Fixed Pay (Base Salary and Fixed Allowances)**  
Fixed pay is determined based on competency level, skills, experience, performance and market competitive levels; ensuring its competitiveness vis-à-vis comparable institutions for attraction and retention purposes.

**HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****B. Board Committees (cont'd)****(d) RC (cont'd)****Remuneration Policy (cont'd)****Key components of remuneration structure (cont'd)**

- Variable pay (Cash Bonus, Deferred Cash and Incentive)  
Variable pay is declared based on overall Company's performance, line of business and individual performance. It focuses on the achievement of key objectives which are aligned to value creation for our shareholders and stakeholders. Payout is aligned to time horizon of risk to avoid excessive risk taking and provide for malus, clawback and deferral arrangements.
- Employee Benefits  
Employee benefits are used to foster employees' sense of being valued and sense of well-being, delivering cost-effective programmes that are of value to employees.

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)
<b>Fixed Remuneration</b>				
• Cash-based	1,620,000	-	10,070,064	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
<b>Variable Remuneration</b>				
• Cash-based	1,984,335	-	4,386,994	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **C. Independence**

The Company has in place a policy in relation to the tenure for independent Directors of the Company ("Tenure Policy") under the Fit and Proper Policy of the Company. Pursuant to the Tenure Policy, an independent Director who has served on the Board of the company for a period of 9 years cumulatively shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an independent Director, upon:-

- (a) the expiry of his term of office approved by BNM; or
- (b) the due date for his retirement by rotation pursuant to the Constitution of the Company.

If the intention is to continue in office, the NC shall consider based on the assessment criteria and guidelines set out in the Fit and Proper Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be made to BNM to seek approval in accordance to BNM CG Policy.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a Director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from Directors who have, over time, gained valuable insight into the Company, its market and the industry.

The independent Directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the independent Directors, have continued to bring objective judgment to the Board deliberations and decision making. The tenure of all the independent directors on the Board does not exceed 9 years.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **D. Commitment**

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM CG Policy.

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated electronically 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 a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. She supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. All Directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Company's expense, in consultation with the Chairman or the Chief Executive Officer of the Company.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. A Director who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the Board meeting where the material transaction or material arrangement is being deliberated by the Board.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **E. 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.

##### **F. Internal Controls Framework**

The Board has overall oversight responsibility to ensure that the Company maintains an adequate system of internal controls and is equipped with effective operations and risk management, as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements to safeguard assets of the Company and stakeholders' interests.

The system of internal controls provides reasonable but not absolute assurance that the Company would not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. In this regard, it is noted that no system of internal controls can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

The internal control framework comprises among others, the infrastructure in the form of risk oversight committees at the Board and Management level; policies and procedures; self-assessment process for business units to assess and manage the adequacy and effectiveness of their systems of internal controls and the level of compliance with applicable rules and regulations; and a monitoring and reporting process.

###### **(a) Infrastructure**

While the Board is ultimately responsible for the management of risks within the Company, several oversight committees have been established over the years to facilitate in depth review of the risks associated with specific aspects of the business such as NC, RC, GBAC, GBRMC, Executive Committee ("EXCO"), Investment Committee, Information Technology Steering Committee, Strategic Product Committee, Underwriting, Policy Administration and Claims Committee, Asset Liability Committee, etc. The duties and scope of work of these committees are documented in their respective terms of reference.

The Company has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The Company operates their respective business units within the policies, functional, financial and operating reporting standards and control procedures developed by the Company. Such reporting standards and control procedures are supplemented by standard operating procedures developed by the business units.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **F. Internal Controls Framework (cont'd)**

###### **(b) Policies and Procedures**

The Company has established risk management policies that set forth the means by which the Company shall evaluate and manage the risks inherent in the business. The policies outline the common risk management process across key risks types within the Company.

A number of policies and procedures have also been put in place to guide and facilitate consistency in application across the board. These cover key areas of risk such as:

- Whistleblowing Policy
- Code of Conduct and Ethics
- Anti-Money Laundering and Countering Financing of Terrorism Policy
- Internal Capital Adequacy Assessment Process Policy
- Investment Policy
- Management of Participating Life Business Policy
- IT Security Policy
- New Product Approval Policy and Framework
- Management of Customer Information Policy
- Risk Management Policy and Framework
- Compliance Policy
- Audit Charter

Policies and procedures are reviewed regularly to ensure continued relevance and to capture the latest regulatory, statutory and Group requirements. Policies are endorsed by EXCO and GBRMC and subsequently approved by the Board while operating procedures are approved by EXCO, as appropriate, to formalise their application within the Company.

###### **(c) Self-assessment Process**

A Risk Self-Assessment tool is established in the Company. The result of the assessment is reported to EXCO and GBRMC and subsequently to the Board via GBRMC's highlights.

###### **(d) Monitoring and Reporting**

The Company has identified the key risks that have significant impact on its operations - capital adequacy risk, strategic risk, credit risk, market risk, interest rate risk, liquidity risk, information technology risk, insurance risk, operational risk, and compliance risk. Each operating unit has a number of functional departments and/or units that will be responsible for managing and monitoring these risks through appropriate limits, control procedures and oversight.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **CORPORATE GOVERNANCE (CONT'D)**

##### **F. Internal Controls Framework (cont'd)**

###### **(d) Monitoring and Reporting (cont'd)**

An Enterprise Risk Dashboard that provides holistic view of the Company's risk profile is submitted to EXCO for review and reported to GBRMC for notation.

The Company has a process to collate statistics for Company-wide Key Risk Indicators as well as operational loss events reporting (via ORION) to EXCO and GBRMC and subsequently to the Board via GBRMC's highlights on a regular basis. Both items are also reported to BNM based on a stipulated timeline.

##### **G. 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.

##### **H. 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.

##### **I. 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.

##### **J. 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.



**HONG LEONG ASSURANCE BERHAD**

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah\*\*\*\***

	<b>Nominal value per share RM (unless indicated)</b>	<b>As at 1/7/2018</b>	<b>Acquired</b>	<b>Sold</b>	<b>As at 30/6/2019</b>
<b>Interests of</b>					
<b>YBhg Tan Sri Quek Leng Chan in:</b>					
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 <sup>8/9</sup> p	285,207	-	-	285,207

**HONG LEONG ASSURANCE BERHAD**

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah\*\*\*\*

<b>Nominal value per share RM (unless indicated)</b>	<b>As at <u>1/7/2018</u></b>	<b><u>Acquired</u></b>	<b><u>Sold</u></b>	<b>As at <u>30/6/2019</u></b>
<b>Interests of Mr Tan Kong Khoon in:</b>				
Hong Leong Financial Group Berhad	8,000,000 *	-	-	8,000,000 *
<b>Interests of YBhg Dato' Siow Kim Lun @ Siow Kim Lin in:</b>				
GuocoLand (Malaysia) Berhad	(1) 15,000	-	-	15,000
<b>Interests of YBhg Datin Ngiam Pick Ngoh in:</b>				
Hong Leong Bank Berhad	(1) 5,000	-	-	5,000

**HONG LEONG ASSURANCE BERHAD**

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabah\*\*\*\***

	<b>Nominal value per share RM (unless indicated)</b>	<b>As at 1/7/2018</b>	<b>Acquired</b>	<b>Sold</b>	<b>As at 30/6/2019</b>
<b>Interest of</b>					
<b>YBhg Tan Sri Quek Leng Chan in :</b>					
Hong Leong Company (Malaysia) Berhad	(1)	7,651,455 <sup>(6)</sup>	-	-	7,651,455 <sup>(6)</sup>
Hong Leong Financial Group Berhad	(1)	896,158,726 <sup>(6)</sup>	-	(1,440,000) <sup>(6)</sup>	894,718,726 <sup>(6)</sup>
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 <sup>***</sup>	400,000,000 <sup>***</sup>	-	800,000,000 <sup>***</sup>
		500,000,000 <sup>****</sup>	1,000,000,000 <sup>****</sup>	-	1,500,000,000 <sup>****</sup>
Hong Leong MSIG Takaful Berhad	(1)	65,000,000	65,000,000	-	130,000,000
Hong Leong Assurance Berhad	(1)	140,000,000	-	-	140,000,000
Hong Leong Islamic Bank Berhad		400,000,000 <sup>***</sup>	-	-	400,000,000 <sup>***</sup>
		-	400,000,000 <sup>****</sup>	-	400,000,000 <sup>****</sup>

**HONG LEONG ASSURANCE BERHAD**

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah\*\*\*\***

	<b>Nominal value per share RM (unless indicated)</b>	<b>As at 1/7/2018</b>	<b>Acquired</b>	<b>Sold</b>	<b>As at 30/6/2019</b>
<b>Interest of</b>					
<b>YBhg Tan Sri Quek Leng Chan in : (cont'd)</b>					
Hong Leong Industries Berhad	(1)	242,700,470 <sup>(6)</sup>	17,000	(17,000)	242,700,470 <sup>(6)</sup>
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
Century Touch Sdn Bhd (In members' voluntary liquidation)	(1)	6,545,001	-	(6,545,001) <sup>(8)</sup>	-
Varinet Sdn Bhd (In members' voluntary liquidation)	(1)	10,560,627	-	(10,560,627) <sup>(8)</sup>	-
Malaysian Pacific Industries Berhad	(1)	108,715,257	138,200	-	108,853,457
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 <sup>(7)</sup>	-	-	22,400 <sup>(7)</sup>

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah\*\*\*\***

	<b>Nominal value per share RM (unless indicated)</b>	<b>As at 1/7/2018</b>	<b>Acquired</b>	<b>Sold</b>	<b>As at 30/6/2019</b>
<b>Interest of</b>					
<b>YBhg Tan Sri Quek Leng Chan in : (cont'd)</b>					
Hume Industries Berhad	(1)	350,231,658 <sup>(6)</sup>	-	-	350,231,658 <sup>(6)</sup>
		-	195,510,374 <sup>** (6)</sup>	-	195,510,374 <sup>** (6)</sup>
		100,000 <sup>* (6)</sup>	3,800,000	(70,000) <sup>* (6) (9)</sup>	3,830,000 <sup>* (6)</sup>
Guoco Group Limited	USD0.50	237,124,930	-	-	237,124,930
GuocoLand Limited	(2)	817,946,030 <sup>(6)</sup>	147,000 <sup>* (6) (10)</sup>	-	818,093,030 <sup>(6)</sup>
		385,000 <sup>* (6)</sup>	-	(147,000) <sup>* (6) (10)</sup>	238,000 <sup>* (6)</sup>
Southern Steel Berhad	(1)	292,169,709	-	-	292,169,709
	(1)	140,076,337 <sup>**</sup>	-	-	140,076,337 <sup>**</sup>
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	124,964,153	-	-	124,964,153
TPC Commercial Pte. Ltd.	(2)	189,600,000	-	-	189,600,000

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah\*\*\*\***

	<b>Nominal value per share RM (unless indicated)</b>	<b>As at 1/7/2018</b>	<b>Acquired</b>	<b>Sold</b>	<b>As at 30/6/2019</b>
<b>Interest of</b>					
<b>YBhg Tan Sri Quek Leng Chan in : (cont'd)</b>					
TPC Hotel Pte. Ltd.	(2)	62,400,000	-	-	62,400,000
Wallich Residence Pte. Ltd.	(2)	24,000,000	-	-	24,000,000
GLL A Pte. Ltd.	(2)	10	-	-	10
GLL Chongqing 18 Steps Pte. Ltd. (formerly known as GLL Chengdu Pte. Ltd.)	(2)	149,597,307	-	-	149,597,307
Guoco Midtown Pte. Ltd. (formerly known as GLL Prosper Pte. Ltd.)	(2)	184,000,000	-	-	184,000,000
Midtown Bay Pte. Ltd. (formerly known as GLL Thrive Pte. Ltd.)	(2)	32,000,000	-	-	32,000,000
GGL Asset Management (Singapore) Pte Ltd	(2)	1,700,000	-	-	1,700,000
Hillcrest Hives Limited	-	-	700	-	700

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah\*\*\*\***

	<b>Nominal value per share RM (unless indicated)</b>	<b>As at 1/7/2018</b>	<b>Acquired</b>	<b>Sold</b>	<b>As at 30/6/2019</b>
<b>Interest of</b>					
<b>YBhg Tan Sri Quek Leng Chan in : (cont'd)</b>					
Beijing Ming Hua Property Co., Ltd	(3)	150,000,000	-	(146,250,000) <sup>(11)</sup>	3,750,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	3,150,000,000	-	(2,835,000,000) <sup>(11)</sup>	315,000,000
Shanghai Xinhaozhong Holding Co., Ltd	(3)	490,000	-	-	490,000
JB Parade Sdn Bhd	(1)	28,000,000	-	-	28,000,000
	(1)	97,390,000 <sup>(7)</sup>	-	-	97,390,000 <sup>(7)</sup>
Lam Soon (Hong Kong) Limited	(5)	140,008,659	-	-	140,008,659
Guangzhou Lam Soon Food Products Limited	(4)	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

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah\*\*\*\***

	<b>Nominal value per share RM (unless indicated)</b>	<b>As at 1/7/2018</b>	<b>Acquired</b>	<b>Sold</b>	<b>As at 30/6/2019</b>
<b>Interest of</b>					
<b>YBhg Tan Sri Quek Leng Chan in : (cont'd)</b>					
GLM Emerald Industrial Park (Jasin) Sdn Bhd	(1)	34,408,000	-	-	34,408,000
	(1)	123,502,605 <sup>(7)</sup>	-	-	123,502,605 <sup>(7)</sup>
GL Limited	USD0.20	925,753,134	29,258,200 <sup>(6)</sup>	-	955,011,334 <sup>(6)</sup>
		100,000 <sup>*(6)</sup>	900,000 <sup>*(6)</sup>	(70,000) <sup>*(6)(9)</sup>	930,000 <sup>*(6)</sup>
The Rank Group Plc	GBP13 <sup>8/9</sup> p	219,282,221	-	-	219,282,221



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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

**DIRECTORS' INTERESTS (CONT'D)**

Notes:

- (1) Concept of par value was abolished with effect from 31 January 2017 pursuant to the Companies Act 2016
- (2) Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
- (3) Capital contribution in RMB
- (4) Capital contribution in HKD
- (5) Concept of par value was abolished with effect from 3 March 2014 pursuant to the New Companies Ordinance (Chapter 622), Hong Kong
- (6) Inclusive of interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by family member
- (7) Redeemable Preference Shares/ Cumulative Redeemable Preference Shares
- (8) Dissolved during the financial year
- (9) Share options lapsed
- (10) Exercise of share options
- (11) Share reduction

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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.

During the financial year, Directors & 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 & Officers of the Company subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors and Officers of the Group was RM10 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by the Group was RM67,688 (2018: RM67,688) and the apportioned amount of the said premium paid by the Company was RM4,541.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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 HLFG 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 is 5.2 years from grant date. The weighted average remaining option life as at 30 June 2019 is 0.96 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.

#### **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 1.40 to 5.40 years from grant date. The weighted average remaining option life as at 30 June 2019 is 2.37 years.

During the financial year, the Company had recognised share-based compensation income amounting to RM2,413,097 (share-based compensation expense for 2018: RM2,393,827).

**HONG LEONG ASSURANCE BERHAD**

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

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (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.

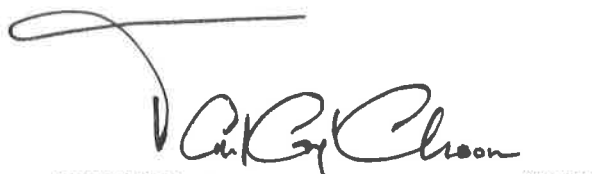
**AUDITORS' REMUNERATION**

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.

This report was approved by the Board of Directors on 12 September 2019. Signed on behalf of the Board of Directors.



Tan Kong Khoon



Dato' Siow Kim Lun @ Siow Kim Lin

Petaling Jaya  
12 September 2019

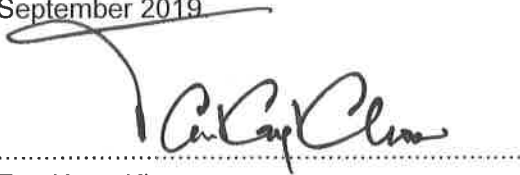
**HONG LEONG ASSURANCE BERHAD**

(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 57 to 176 are drawn up so as to give a true and fair view of the financial position of the Company as at 30 June 2019 and financial performance of the Company for the financial year ended 30 June 2019 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 12 September 2019



Tan Kong Khoon  
Director



Dato' Siow Kim Lun @ Siow Kim Lin  
Director

Petaling Jaya  
12 September 2019

**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 57 to 176 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 12 September 2019 )



Before me

Commissioner for Oath



3 Damansara Shopping Mall  
3, Jalan SS20/27  
47400 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 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 30 June 2019, and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 57 to 176.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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





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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

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

A stylized, handwritten signature in black ink, appearing to be 'PwC'.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Wong Hui Chern'.

WONG HUI CHERN  
03252/05/2020 J  
Chartered Accountant

Kuala Lumpur  
12 September 2019

**HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	Note	2019 RM'000	2018 RM'000
<b>Assets</b>			
Property, plant and equipment	3	81,169	83,434
Intangible assets	4	6,597	6,541
Investment properties	5	489,500	494,164
Financial assets	6	18,544,154	15,763,366
- Held-to-maturity financial assets	6(a)	-	611,075
- Available-for-sale financial assets	6(b)	-	10,904,597
- Fair value through profit or loss financial assets	6(c)	17,220,310	3,401,161
- Loans and receivables	6(d)	-	846,533
- Amortised cost financial assets	6(e)	1,323,844	-
Derivative assets	7	13,744	24,104
Reinsurance assets	12	15,658	49,908
Insurance receivables	8	88,722	114,940
Other receivables	9	26,868	80,133
Non-current assets held-for-sale		-	60
Cash and cash equivalents		1,171,884	1,594,615
<b>Total assets</b>		<b>20,438,296</b>	<b>18,211,265</b>
<b>Equity, policyholders' fund and liabilities</b>			
Share capital	10	200,000	200,000
Reserves	11	1,590,026	1,460,374
<b>Total equity</b>		<b>1,790,026</b>	<b>1,660,374</b>
Insurance contract liabilities	12	14,590,199	12,888,019
Deferred tax liabilities	13	318,877	225,707
Tax payables		11,808	21,482
Insurance payables	14	2,948,896	2,630,836
Other payables	15	251,268	259,784
Derivative liabilities	7	19,496	17,514
Subordinated notes	16	507,726	507,549
<b>Total policyholders' fund and liabilities</b>		<b>18,648,270</b>	<b>16,550,891</b>
<b>Total equity, policyholders' fund and liabilities</b>		<b>20,438,296</b>	<b>18,211,265</b>

*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 2019**

	Note	2019 RM'000	2018 RM'000
Gross earned premiums		2,800,531	2,950,124
Premiums ceded to reinsurers		(107,037)	(86,517)
<b>Net earned premiums</b>		<u>2,693,494</u>	<u>2,863,607</u>
Investment income	17	783,787	729,589
Realised (losses)/gains	18	(837)	128,828
Fair value gains/(losses)	19	797,608	(94,125)
Fees and commission income	20	14,602	13,111
Other operating income-net	21	19,123	-
<b>Other revenue</b>		<u>1,614,283</u>	<u>777,403</u>
Gross benefits and claims paid		(1,654,877)	(1,729,396)
Claims ceded to reinsurers		68,849	60,382
Gross change to contract liabilities		(1,708,984)	(946,548)
Change in contract liabilities ceded to reinsurers		(32,371)	2,271
<b>Net benefits and claims</b>		<u>(3,327,383)</u>	<u>(2,613,291)</u>
Fees and commission expense		(373,511)	(434,559)
Management expenses	22	(204,305)	(177,770)
Other operating expenses-net	21	-	(83,737)
<b>Other expenses</b>		<u>(577,816)</u>	<u>(696,066)</u>
Finance cost		(22,677)	(22,677)
Surplus before taxation		379,901	308,976
Tax expense attributable to participating fund and unitholders		(94,247)	(34,749)
<b>Profit before taxation attributable to shareholders</b>		<u>285,654</u>	<u>274,227</u>
Taxation		(158,851)	(97,520)
Tax expense attributable to participating fund and unitholders		94,247	34,749
Taxation attributable to shareholders	23	(64,604)	(62,771)
<b>Net profit for the financial year</b>		<u>221,050</u>	<u>211,456</u>
<b>Earnings per share (sen)</b>	25	<u>110.53</u>	<u>105.73</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 2019**

	<b>Note</b>	<b>2019 RM'000</b>	<b>2018 RM'000</b>
<b>Net profit for the financial year</b>		221,050	211,456
<b>Other comprehensive income:</b>			
<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 arising during the financial year		-	(125,479)
Gross fair value gains transferred to income statement		-	(116,184)
		<hr/>	<hr/>
		-	(241,663)
Tax effects thereon	13	-	27,838
		<hr/>	<hr/>
Net fair value losses		-	(213,825)
Change in insurance contract liabilities arising from net fair value losses		-	170,654
		<hr/>	<hr/>
		-	(43,171)
		<hr/>	<hr/>
<b>Total comprehensive income for the financial year</b>		<u>221,050</u>	<u>168,285</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 2019**

	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 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>
At 1 July 2018		200,000	200,000	26,454	942,558	491,362	1,660,374
- Effects on adoption of MFRS 9 (Note 36)	36	-	-	(26,454)	10,841	24,215	8,602
As restated at 1 July 2018		200,000	200,000	-	953,399	515,577	1,668,976
Profit for the financial year		-	-	-	121,019	100,031	221,050
Dividend paid during the financial year	24	-	-	-	-	(100,000)	(100,000)
At 30 June 2019		<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>1,074,418</u>	<u>515,608</u>	<u>1,790,026</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 2019**

	<b>Note</b>	<b>2019 RM'000</b>	<b>2018 RM'000</b>
<b>Operating activities</b>			
Net profit for the financial year		221,050	211,456
Adjustments for:			
Investment income recorded in income statement	17	(783,787)	(729,589)
Realised losses/(gains) recorded in income statement	18	837	(128,828)
Fair value (gains)/losses recorded in income statement	19	(797,608)	94,125
Foreign exchange (gains)/losses		(9,322)	33,388
Proceeds from sale of fair value through profit or loss financial assets		3,097,113	826,179
Maturity of fair value through profit or loss financial assets		1,431,305	48,936
Purchase of fair value through profit or loss financial assets		(5,961,967)	(1,803,171)
Proceeds from sale of available-for-sale financial assets		-	1,778,792
Maturity of available-for-sale financial assets		-	1,034,846
Purchase of available-for-sale financial assets		-	(3,585,243)
Increase in amortised cost financial assets		(477,314)	-
Proceeds on disposal of non-current asset held-for-sale		60	-
(Purchase)/proceeds from realisation of derivatives		(837)	12,644
Increase in loans and receivables		-	77,859
Finance costs		22,677	22,677
		<u>(3,478,843)</u>	<u>(2,317,385)</u>
<b>Non-cash items:</b>			
Depreciation of property, plant and equipment	3	5,345	5,080
Amortisation of intangible assets	4	3,678	2,682
Impairment on available-for-sale financial assets		-	68,381
Tax expense		158,851	97,520
		<u>167,874</u>	<u>173,663</u>
<b>Changes in working capital:</b>			
Decrease/(increase) in reinsurance assets		34,250	(5,319)
Decrease in insurance receivables		19,445	33,470
Decrease/(increase) in other receivables		46,435	(23,717)
Increase in insurance contract liabilities		1,696,107	953,979
Increase in insurance payables		318,060	373,401
(Decrease)/increase in other payables		(8,516)	27,733
		<u>2,105,781</u>	<u>1,359,547</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 2019 (CONT'D)**

		<b>2019</b>	<b>2018</b>
	<b>Note</b>	<b>RM'000</b>	<b>RM'000</b>
Cash used in operating activities		(984,138)	(572,719)
Dividend income received		144,124	114,514
Interest income received		626,003	582,916
Rental income received		(263)	7,730
Income taxes paid		(79,143)	(79,306)
Net cash (outflow)/inflow from operating activities		<u>(293,417)</u>	<u>53,135</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	3	(5,622)	(5,961)
Purchase of intangible assets	4	(1,192)	(503)
Net cash outflow from investing activities		<u>(6,814)</u>	<u>(6,464)</u>
<b>Financing activities</b>			
Dividends paid		(100,000)	(80,000)
Interest paid on subordinated notes		(22,500)	(22,500)
Net cash outflow from financing activities		<u>(122,500)</u>	<u>(102,500)</u>
Effect of exchange rate changes on cash and cash equivalents		-	(35)
Net decrease in cash and cash equivalents		(422,731)	(55,864)
Cash and cash equivalents at beginning of the financial year		1,594,615	1,650,479
<b>Cash and cash equivalents at end of the financial year</b>		<u><u>1,171,884</u></u>	<u><u>1,594,615</u></u>
<b>Cash and cash equivalents comprise:</b>			
Cash and bank balances		41,119	63,599
Fixed and call deposits with maturity of less than 3 months			
- Licensed financial institutions		1,130,765	1,531,016
		<u><u>1,171,884</u></u>	<u><u>1,594,615</u></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 2019 (CONT'D)**

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

	<b>Note</b>	<b>2019</b> <b>RM'000</b>	<b>2018</b> <b>RM'000</b>
<b>Subordinated note</b>			
Balance at the beginning of the financial year		507,549	507,372
<b>Cash changes:</b>			
- Interest paid		(22,500)	(22,500)
<b>Non-cash changes:</b>			
- Accrued interest		22,500	22,500
- Amortised incidental costs		177	177
Balance at the end of the financial year	16	<u>507,726</u>	<u>507,549</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 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 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, 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.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 12 September 2019.

#### **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**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **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 at fair value through other comprehensive income and financial assets/ financial liabilities at fair value through profit or loss (including derivative financial instruments and revaluation of investment properties).

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 income and expenses during the reported financial year. 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 management and Directors' best knowledge of current events and actions, actual results may differ from those estimates.

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 2018**

- MFRS 15 'Revenue from Contracts with Customers'
- Amendments to MFRS 2 'Share-based Payment – Classification and Measurement of Share-based Payment Transactions'
- Amendments to MFRS 140 'Investment Property – Transfers of Investment Property'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 128 'Investments in Associates and Joint Ventures'

## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

### NOTES TO THE FINANCIAL STATEMENTS

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

##### (a) Basis of preparation (cont'd)

##### (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 2018 (cont'd)

- MFRS 9 'Financial Instruments'

This complete version of MFRS 9 replaces the entire MFRS 139. It amends the requirements on classification and measurement of financial assets and includes an expected credit losses model that replaces the incurred loss impairment model used under MFRS 139. It also includes the new hedging guidance that was issued in February 2014.

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

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

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

As permitted by the transitional provisions of MFRS 9, the Company elected not to restate comparative figures and continued to be reported under the previous accounting policies governed under MFRS 139. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current financial year.

The details and the financial effects of the adoption of MFRS 9 are disclosed in Note 36.

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (a) Basis of preparation (cont'd)

##### (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 2018 (cont'd)

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

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 'Financial Instruments' before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for entities:

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

Both approaches are optional.

The Company has not applied deferral option in MFRS 4 " Insurance Contracts" and have fully adopted MFRS 9 effective 1 July 2019.

Except for the adoption of MFRS 9 'Financial Instruments' and Amendments to MFRS 4 'Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts', the adoption of the above new standards and interpretation are not expected to have impact on the financial results of the Company.

Other than that, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

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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 2019 that are applicable to the Company are as follows:-

##### 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.

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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)

- 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.

- 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 shall 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. 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.

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (e) Financial instruments

###### Accounting policies applied from 1 July 2018

###### (i) Classification

From 1 July 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost

###### (ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

###### (iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ('SPPI').

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (e) Financial instruments (cont'd)

##### Accounting policies applied from 1 July 2018 (cont'd)

##### (iii) Measurement (cont'd)

###### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the following factors:

- The Company's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Company classify their debt instruments into one of the following two measurement categories:

- **Amortised cost ('AC')**

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in statement of income as presented in net realised gain or loss on financial instruments. Impairment losses are presented as separate line item in the statement of income and statement of comprehensive income.

- **Fair value through profit or loss ('FVTPL')**

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in statement of income and presented net within other gains/(losses) in the period which it arises.

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### **NOTES TO THE FINANCIAL STATEMENTS**

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

##### **(e) Financial instruments (cont'd)**

##### **Accounting policies applied from 1 July 2018 (cont'd)**

##### **(iii) Measurement (cont'd)**

###### **Equity instruments**

Equity instruments are instruments that meet the definition of equity from the issuers' perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuers' net assets.

The Company subsequently measure all equity instruments at FVTPL. Dividend will be recognised in income statements as investment income when the Company's right to receive payments is established.

Changes in fair value of financial assets at FVTPL are included in the 'fair value gains/(losses) arising from financial assets FVTPL' in the income statements.

##### **(iv) Reclassification policy**

Reclassification of financial assets is required when, and only when, the Company change their business model for managing the assets. In such cases, the Company are required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (e) Financial instruments (cont'd)

###### Accounting policies applied until 30 June 2018

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

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

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

##### (i) Initial recognition and measurement

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

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

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

##### (ii) Financial instrument categories and subsequent measurement

###### **Financial assets**

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



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**NOTES TO THE FINANCIAL STATEMENTS**

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

**(e) Financial instruments (cont'd)**

**Accounting policies applied until 30 June 2018 (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)

##### Accounting policies applied until 30 June 2018 (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)

##### Accounting policies applied until 30 June 2018 (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)

##### Accounting policies applied until 30 June 2018 (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.

Since adoption of MFRS 9, the Company documents at the inception of the hedge relationship, the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions. Prior to 1 July 2018, the Company documented 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.

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (g) Derivative financial instruments and hedging (cont'd)

###### (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.

##### (h) Impairment

###### **Accounting policies applied from 1 July 2018**

Impairment for Expected Credit Loss ("ECL") is not applicable for debt instruments as the Company has elected the fair value option ("FVO") to designate all debt instruments to be measured at FVTPL.

The Company has two types of financial instruments that are subject to the ECL model:

- Insurance receivables
- Other receivables

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Company expects to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

### NOTES TO THE FINANCIAL STATEMENTS

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

##### (h) Impairment (cont'd)

###### Accounting policies applied from 1 July 2018 (cont'd)

###### (i) General 3-stage approach for other receivables

At each reporting date, the Company measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on a financial instrument or a company of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required. Note 31(a) sets out the measurement details of ECL.

###### (ii) Simplified approach for insurance receivables

The Company applies the MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all insurance receivables. The expected loss allowance is based on provisional matrix with the usage of forward-looking information in determining of ECL, including the use of macroeconomic information.

###### Accounting policies applied until 30 June 2018

###### (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.



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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (h) Impairment (cont'd)

###### Accounting policies applied until 30 June 2018 (cont'd)

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

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.

###### 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.

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (h) Impairment (cont'd)

##### Accounting policies applied until 30 June 2018 (cont'd)

##### (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.

##### (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.

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (h) Impairment (cont'd)

###### Accounting policies applied until 30 June 2018 (cont'd)

##### (iii) Non-financial assets (cont'd)

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.

##### (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.

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### NOTES TO THE FINANCIAL STATEMENTS

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

##### (j) Product classification (cont'd)

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.

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

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

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### **NOTES TO THE FINANCIAL STATEMENTS**

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

##### **(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 5.75% (2018: 6%) and 4.9% (2018: 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**

	<b>Land</b>		<b>Buildings</b>		<b>Furniture and fittings RM'000</b>	<b>Renovation, equipment and computers RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Capital work-in- progress RM'000</b>	<b>Total RM'000</b>
	<b>Freehold</b>	<b>Leasehold</b>	<b>Freehold</b>	<b>Leasehold</b>					
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>					
<b>Cost</b>									
At 1 July 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	<u>2,451</u>	<u>2,205</u>	<u>2,353</u>	<u>78,280</u>	<u>2,116</u>	<u>49,187</u>	<u>1,700</u>	<u>3,779</u>	<u>142,071</u>
At 1 July 2018	2,451	2,205	2,353	78,280	2,116	49,187	1,700	3,779	142,071
Additions	-	-	-	-	36	1,323	487	3,776	5,622
Reclassification (Note 4)	-	-	-	-	-	-	-	(2,542)	(2,542)
At 30 June 2019	<u>2,451</u>	<u>2,205</u>	<u>2,353</u>	<u>78,280</u>	<u>2,152</u>	<u>50,510</u>	<u>2,187</u>	<u>5,013</u>	<u>145,151</u>

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

	<b>Land</b>		<b>Buildings</b>		<b>Furniture and fittings RM'000</b>	<b>Renovation, equipment and computers RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Capital work-in- progress RM'000</b>	<b>Total RM'000</b>
	<b>Freehold</b>	<b>Leasehold</b>	<b>Freehold</b>	<b>Leasehold</b>					
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>					
<b>Accumulated depreciation</b>									
At 1 July 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
At 1 July 2018	-	673	138	15,274	1,743	39,940	869	-	58,637
Charge for the year	-	31	47	1,566	84	3,233	384	-	5,345
At 30 June 2019	-	704	185	16,840	1,827	43,173	1,253	-	63,982



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

	<b>Land</b>		<b>Buildings</b>		<b>Furniture and fittings RM'000</b>	<b>Renovation, equipment and computers RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Capital work-in- progress RM'000</b>	<b>Total RM'000</b>
	<b>Freehold</b>	<b>Leasehold</b>	<b>Freehold</b>	<b>Leasehold</b>					
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>					
<b>Net carrying amount</b>									
At 30 June 2018	2,451	1,532	2,215	63,006	373	9,247	831	3,779	83,434
At 30 June 2019	2,451	1,501	2,168	61,440	325	7,337	934	5,013	81,169

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

	<b>Land</b>		<b>Buildings</b>		<b>Furniture and fittings RM'000</b>	<b>Renovation, equipment and computers RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Capital work-in- progress RM'000</b>	<b>Total RM'000</b>
	<b>Freehold</b>	<b>Leasehold</b>	<b>Freehold</b>	<b>Leasehold</b>					
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>					
<b>At cost</b>									
At 30 June 2018	-	-	-	-	1,310	24,365	361	-	26,036
At 30 June 2019	-	-	-	-	1,315	25,480	361	-	27,156

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 July	74,925	69,443
Additions	1,192	503
Reclassification (Note 3)	2,542	4,979
At 30 June	<u>78,659</u>	<u>74,925</u>
<b>Accumulated amortisation</b>		
At 1 July	68,384	65,702
Amortisation	3,678	2,682
At 30 June	<u>72,062</u>	<u>68,384</u>
Net carrying amount	<u>6,597</u>	<u>6,541</u>

**5 . INVESTMENT PROPERTIES**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 July	494,164	496,624
Fair value losses	(4,664)	(2,460)
At 30 June	<u>489,500</u>	<u>494,164</u>
The analysis of investment properties is as follows:		
Freehold land and building	487,000	492,094
Leasehold land and building	2,500	2,070
	<u>489,500</u>	<u>494,164</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 32.

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Level 2	2,500	2,070
Level 3	487,000	492,094
	<u>489,500</u>	<u>494,164</u>

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

<b>Valuation Technique</b>	<b>Unobservable input</b>	<b>2019</b>	<b>2018</b>
Comparison & Investment Method	Term Yield	6.00%	6.00%
	Revisionary Rate	6.50% - 6.75%	6.50% - 6.75%
	Average rental per square feet	RM4.45 - RM6.04	RM4.45 - RM5.74
	Discount Rate	6.50% - 6.75%	6.50% - 6.75%
	Estimated value per square feet	RM595.57 - RM828.71	RM583.00 - RM813.37

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Rental income generated	10,255	17,532
Direct operating expenses	(10,721)	(9,827)
	<u>(466)</u>	<u>7,705</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Malaysian Government Securities and other Government guaranteed assets	6,426,696	5,110,368
Corporate bonds	5,797,624	5,778,899
Equity securities	2,845,747	2,265,759
Unit trusts and real estate investment trusts	1,372,302	1,201,356
Policy loans and premium loans	544,108	564,369
Deposits with financial institutions	1,557,677	842,615
	<u>18,544,154</u>	<u>15,763,366</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
HTM financial assets	-	611,075
AFS financial assets	-	10,904,597
FVTPL financial assets	17,220,310	3,401,161
Loans and receivables	-	846,533
AC financial assets	1,323,844	-
	<u>18,544,154</u>	<u>15,763,366</u>

The following investments mature within 12 months:

HTM financial assets	-	200,427
AFS financial assets	-	1,222,041
FVTPL financial assets	567,131	260,133
Loans and receivables	-	846,533
AC financial assets	1,273,273	-
	<u>1,840,404</u>	<u>2,529,134</u>

The following investments mature after 12 months:

HTM financial assets	-	410,648
AFS financial assets	-	9,682,556
FVTPL financial assets	16,653,179	3,141,028
AC financial assets	50,571	-
	<u>16,703,750</u>	<u>13,234,232</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost:</b>		
Corporate bonds		
- Unquoted in Malaysia	-	611,075
	<u>-</u>	<u>611,075</u>
<b>At fair value:</b>		
Corporate bonds		
- Unquoted in Malaysia	-	620,605
	<u>-</u>	<u>620,605</u>

**(b) AFS financial assets**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value:</b>		
Malaysian Government Securities and other Government guaranteed assets	-	4,321,490
Corporate bonds		
- Unquoted in Malaysia	-	3,923,040
- Unquoted outside Malaysia	-	265,019
Equity securities		
- Quoted in Malaysia *	-	1,511,037
- Unquoted in Malaysia	-	2,147
- Quoted outside Malaysia	-	111,481
Unit trusts/ Real estate investment trusts ("REITS")		
- Quoted in Malaysia	-	766,431
- Quoted outside Malaysia	-	3,952
	<u>-</u>	<u>10,904,597</u>
	<u>-</u>	<u>10,904,597</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 financial assets**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value:</b>		
Malaysian Government Securities and other Government guaranteed assets	6,426,696	788,878
Corporate bonds		
- Quoted in Malaysia	1,178	-
- Unquoted in Malaysia	5,463,467	979,765
- Unquoted outside Malaysia	332,979	-
Equity securities		
- Quoted in Malaysia *	2,577,662	576,816
- Quoted outside Malaysia	248,401	64,278
- Unquoted in Malaysia	19,684	-
Unit trusts/ REITS		
- Quoted in Malaysia	159,649	430,973
- Unquoted in Malaysia	1,212,653	-
Fixed and call deposits		
- Licensed financial institutions	777,941	560,451
	<u>17,220,310</u>	<u>3,401,161</u>

\* 2019: 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)****(d) Loans and receivables**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At cost:</b>		
Fixed and call deposits		
- Licensed financial institutions	-	282,164
Policy loans	-	34,434
Premium loans	-	529,935
	<u>-</u>	<u>846,533</u>
	<u>-</u>	<u>846,533</u>
<b>At fair value:</b>		
Fixed and call deposits		
- Licensed financial institutions	-	282,164
Policy loans	-	34,434
Premium loans	-	529,935
	<u>-</u>	<u>846,533</u>
	<u>-</u>	<u>846,533</u>

**(e) AC financial assets**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At cost:</b>		
Fixed and call deposits		
- Licensed financial institutions	779,736	-
Policy loans	34,057	-
Premium loans	510,051	-
	<u>1,323,844</u>	<u>-</u>
	<u>1,323,844</u>	<u>-</u>

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

	<b>HTM</b>	<b>AFS</b>	<b>FVTPL</b>	<b>LAR</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
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)	(826,179)	-	(2,488,787)
Fair value gains transferred to income statement	-	(116,184)	-	-	(116,184)
Fair value losses recorded in income statement (Note 19)	-	-	(118,687)	-	(118,687)
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****6 . FINANCIAL ASSETS (CONT'D)****(f) Carrying value of financial instruments (cont'd)**

	<b>HTM</b>	<b>AFS</b>	<b>FVTPL</b>	<b>LAR</b>	<b>AC</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 July 2018	611,075	10,904,597	3,401,161	846,533	-	15,763,366
- Effect on adoption of MFRS (Note 36)	(611,075)	(10,904,597)	11,540,908	(846,533)	846,533	25,236
- as restated 1 July 2018	-	-	14,942,069	-	846,533	15,788,602
Purchases	-	-	5,961,967	-	-	5,961,967
Maturities	-	-	(1,431,305)	-	-	(1,431,305)
Disposals	-	-	(3,097,113)	-	-	(3,097,113)
Fair value gains recorded in income statement (Note 19)	-	-	814,614	-	-	814,614
Movement in LAR	-	-	-	-	477,314	477,314
Accretion of discount, net of amortisation of premium (Note 17)	-	-	893	-	-	893
Movement in accrued interest	-	-	19,863	-	(3)	19,860
Currency translation differences	-	-	9,322	-	-	9,322
At 30 June 2019	-	-	17,220,310	-	1,323,844	18,544,154

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

	<b>Notional Principal RM'000</b>	<b>Fair value RM'000</b>
<b>2019</b>		
<b>Derivatives designated as fair value hedge:</b>		
<b>Derivative assets</b>		
- Foreign currency forwards	212,095	853
- Cross-currency interest rate swaps	170,192	12,891
	<u>382,287</u>	<u>13,744</u>
<b>Derivative liabilities</b>		
- Foreign currency forwards	110,063	197
- Cross-currency interest rate swaps	48,502	19,299
	<u>158,565</u>	<u>19,496</u>
<b>2018</b>		
<b>Derivatives designated as fair value hedge:</b>		
<b>Derivative assets</b>		
- Foreign currency forwards	59,329	586
- Cross-currency interest rate swaps	170,192	23,518
	<u>229,521</u>	<u>24,104</u>
<b>Derivative liabilities</b>		
- Foreign currency forwards	126,621	1,668
- Cross-currency interest rate swaps	48,503	15,846
	<u>175,124</u>	<u>17,514</u>
	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Derivative assets maturing within 12 months	854	586
Derivative assets maturing after 12 months	12,890	23,518
	<u>13,744</u>	<u>24,104</u>
Derivative liabilities maturing within 12 months	197	1,668
Derivative liabilities maturing after 12 months	19,299	15,846
	<u>19,496</u>	<u>17,514</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 and foreign equity securities.

The net realised and unrealised gains and losses arising from fair value hedges during the financial year as follows:

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
(Loss)/gain on hedging instruments	(13,179)	39,666
Gain/(loss) on hedged items attributable to the hedged risks	9,322	(33,353)
	<u>(3,857)</u>	<u>6,313</u>

#### 8. INSURANCE RECEIVABLES

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Due premium including agents/brokers and reinsurers balances	94,576	115,449
Allowance for impairment	(5,854)	(509)
	<u>88,722</u>	<u>114,940</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.

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Gross amounts of recognised financial assets	147,367	177,900
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(52,791)	(62,451)
	<u>94,576</u>	<u>115,449</u>
Allowance for impairment (Note 31(a))	(5,854)	(509)
	<u>88,722</u>	<u>114,940</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Investment income receivables	4,169	11,484
Investment debtors	4,541	51,912
Other receivables	18,202	16,737
	<u>26,912</u>	<u>80,133</u>
Allowance for impairment (Note 31(a))	(44)	-
Total other receivables	<u><u>26,868</u></u>	<u><u>80,133</u></u>

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

**10 . SHARE CAPITAL**

	<b>2019</b>		<b>2018</b>	
	<b>No of shares '000</b>	<b>RM'000</b>	<b>No of shares '000</b>	<b>RM'000</b>
<b>Ordinary shares</b>				
<b>Issued and fully paid up:</b>				
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.

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 July	26,454	69,625
- Effects on adoption of MFRS 9 (Note 36)	(26,454)	-
As restated at 1 July	-	69,625
Net loss from change in fair value	-	(26,769)
Reclassification to net profit on disposal and impairment	-	(29,928)
Deferred taxation	-	13,526
At 30 June	-	26,454

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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:

	<b>Gross</b>		<b>Re-insurance</b>		<b>Net</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Provision for outstanding claims	91,602	104,479	(22,697)	(24,576)	68,905	79,903
Actuarial liabilities (Note 30)	11,189,195	10,130,530	7,039	(25,332)	11,196,234	10,105,198
Unallocated surplus	736,764	426,603	-	-	736,764	426,603
Fair value adjustment on AFS financial assets	-	140,754	-	-	-	140,754
Net asset value attributable to unitholders (Note 33)	2,572,638	2,085,653	-	-	2,572,638	2,085,653
Life insurance contract liabilities	<u>14,590,199</u>	<u>12,888,019</u>	<u>(15,658)</u>	<u>(49,908)</u>	<u>14,574,541</u>	<u>12,838,111</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 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:							
Model and Methodology	2,268	1,497	3,765	-	(191)	(191)	3,574
HSI, HIB and PA Assumptions	-	(73)	(73)	-	-	-	(73)
Expense Assumption	-	(599)	(599)	-	-	-	(599)
Lapse Assumption	-	9,887	9,887	-	(2,101)	(2,101)	7,786
Discount Rate	-	(133)	(133)	-	-	-	(133)
Other Assumptions	(193,944)	1,866	(192,078)	-	13	13	(192,065)
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****12 . INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With	Without	Total	With	Without	Total	RM'000
	DPF	DPF		DPF	DPF		
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 July 2018	9,668,143	3,219,876	12,888,019	(1,278)	(48,630)	(49,908)	12,838,111
- Effects on adoption of MFRS 9 (Note 36)	6,073	-	6,073	-	-	-	6,073
- As restated at 1 July 2018	9,674,216	3,219,876	12,894,092	(1,278)	(48,630)	(49,908)	12,844,184
Change in non-economic assumptions and valuation methodology:							
Model and Methodology	64,455	6,525	70,980	-	-	-	70,980
Mortality & TPD Assumption	26,835	(58,871)	(32,036)	-	28,428	28,428	(3,608)
Critical Illnesses Assumption	2,506	(279)	2,227	-	(38)	(38)	2,189
HSI, HIB and PA Assumptions	-	(114)	(114)	-	-	-	(114)
Expense Assumption	67	16,558	16,625	-	(2)	(2)	16,623
Lapse Assumption	(29,388)	34,875	5,487	-	(1,409)	(1,409)	4,078
Discount Rate	59,601	-	59,601	-	-	-	59,601
Other Assumptions	(41,757)	947	(40,810)	-	-	-	(40,810)
Change in economic assumptions	-	95,592	95,592	-	266	266	95,858
Projected change for inforce policies at 30 June 2018	369,031	113,756	482,787	-	494	494	483,281
Experience variance	281,562	8,281	289,843	-	(1,313)	(1,313)	288,530
IBNR	176	4,064	4,240	-	-	-	4,240
Others - EMGS Inwards Reinsurance	-	650	650	-	-	-	650
New business	14,046	77,304	91,350	-	5,113	5,113	96,463
Miscellaneous Changes	-	(832)	(832)	-	832	832	-
Change in unprocessed unit reserves	-	13,075	13,075	-	-	-	13,075
Change in provision for outstanding claims	(21,472)	8,595	(12,877)	395	1,484	1,879	(10,998)
Change in net asset value attributable to unitholders	-	486,985	486,985	-	-	-	486,985
Change in unallocated surplus	163,334	-	163,334	-	-	-	163,334
At 30 June 2019	10,563,212	4,026,987	14,590,199	(883)	(14,775)	(15,658)	14,574,541



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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 July	(225,707)	(232,749)
- Effects on adoption of MFRS 9 (Note 36)	(3,788)	-
	<u>(229,495)</u>	<u>(232,749)</u>
At 1 July	(229,495)	(232,749)
Recognised in:		
Income statement (Note 23)	(89,382)	(20,796)
Other comprehensive income	-	27,838
	<u>(89,382)</u>	<u>27,838</u>
At 30 June	<u>(318,877)</u>	<u>(225,707)</u>
	<u>(318,877)</u>	<u>(225,707)</u>
Current	456	(510)
Non-current	(319,333)	(225,197)
	<u>(318,877)</u>	<u>(225,707)</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.

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	(318,877)	(229,731)
Deferred tax assets	-	4,024
	<u>(318,877)</u>	<u>(225,707)</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**

	<b>Unallocated surplus RM'000</b>	<b>Investment properties RM'000</b>	<b>Financial assets RM'000</b>	<b>Total RM'000</b>
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>
At 1 July 2018	(206,904)	(7,256)	(15,571)	(229,731)
- Effects on adoption of MFRS 9 (Note 36)	<u>(2,379)</u>	-	<u>(1,409)</u>	<u>(3,788)</u>
- As restated 1 July 2018	(209,283)	(7,256)	(16,980)	(233,519)
Recognised in:				
Income statement	<u>(26,565)</u>	<u>1,737</u>	<u>(60,530)</u>	<u>(85,358)</u>
At 30 June 2019	<u>(235,848)</u>	<u>(5,519)</u>	<u>(77,510)</u>	<u>(318,877)</u>

**Deferred tax assets**

	<b>Financial assets RM'000</b>	<b>Total RM'000</b>
At 1 July 2017	5,563	5,563
Recognised in:		
Income statement	<u>(1,539)</u>	<u>(1,539)</u>
At 30 June 2018	<u>4,024</u>	<u>4,024</u>
At 1 July 2018	4,024	4,024
Recognised in:		
Income statement	<u>(4,024)</u>	<u>(4,024)</u>
At 30 June 2019	<u>-</u>	<u>-</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Amount due to reinsurers and cedants	24,198	16,451
Amount due to agents	51,529	35,742
Amount due to insured	2,873,169	2,578,643
	<u>2,948,896</u>	<u>2,630,836</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.

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Gross amounts of recognised financial liabilities	3,001,687	2,693,287
Less: Gross amounts of recognised financial assets set off in the statement of financial position	<u>(52,791)</u>	<u>(62,451)</u>
Net amounts of financial liabilities presented in the statement of financial position	<u>2,948,896</u>	<u>2,630,836</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Accruals*	213,427	216,543
Investment creditors	10,509	20,441
Rental deposits	7,415	6,968
Other payables	19,917	15,832
	<u>251,268</u>	<u>259,784</u>

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

\* Includes provision for HLA ESOS Scheme of RM10,905,791 as at 30 June 2019 (2018: RM8,492,694).

**16 . SUBORDINATED NOTES**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
RM500 million subordinated notes, at par	500,000	500,000
Add: interest payable	8,815	8,815
Less: unamortised incidental costs	(1,089)	(1,266)
	<u>507,726</u>	<u>507,549</u>
Payable within 12 months	8,815	8,815
Payable after 12 months	498,911	498,734
	<u>507,726</u>	<u>507,549</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 RM491,975,654 (2018 : RM489,019,797). 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

	2019 RM'000	2018 RM'000
<b>Interest income</b>		
AFS financial assets	-	400,716
FVTPL financial assets	572,235	69,359
HTM financial assets	-	33,409
Fixed and call deposit	48,823	68,687
Policy loans and premium loans	24,808	27,454
<b>Gross dividends</b>		
AFS financial assets	-	94,417
FVTPL financial assets	137,494	27,232
<b>Rental of properties</b>	(466)	7,705
<b>Accretion of discount, net of amortisation of premium</b>		
AFS financial assets (Note 6(f))	-	746
FVTPL financial assets (Note 6(f))	893	-
HTM financial assets (Note 6(f))	-	(136)
	<u>783,787</u>	<u>729,589</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Derivatives</b>		
Realised (losses)/gains	(837)	12,644
<b>AFS financial assets</b>		
Realised gains:		
Equity securities		
- quoted in Malaysia	-	149,485
- quoted outside Malaysia	-	3,468
Unit trusts/ Reits		
- quoted in Malaysia	-	2,481
- quoted outside Malaysia	-	547
Corporate bonds		
- unquoted in Malaysia	-	2,523
Realised losses:		
Equity securities		
- quoted in Malaysia	-	(40,823)
- quoted outside Malaysia	-	(76)
Unit trusts/ Reits		
- quoted in Malaysia	-	(27)
Corporate bonds		
- unquoted in Malaysia	-	(1,394)
	-	116,184
Net realised (losses)/gains	(837)	128,828

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Fair value gains/(losses):		
Investment properties (Note 5)	(4,664)	(2,460)
Derivatives	(12,342)	27,022
FVTPL financial assets	814,614	(118,687)
	<u>797,608</u>	<u>(94,125)</u>

**20 . FEES AND COMMISSION INCOME**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Policyholder administration and investment management service	12,986	9,629
Reinsurance commission income	1,589	3,482
Surrender charges and other contract fees	27	-
	<u>14,602</u>	<u>13,111</u>

**21 . OTHER OPERATING INCOME/(EXPENSES)-NET**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Impairment on AFS financial assets (Note 6(f))	-	(68,381)
Foreign exchange		
- Realised gains	982	7,744
- Unrealised gains/(losses)	9,322	(33,388)
Other operating income	8,819	10,288
Other income/(expenses)	<u>19,123</u>	<u>(83,737)</u>

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Employee benefits expense (Note 22(a))	104,384	86,222
GMD/CEO and directors' remuneration (Note 22(b))	4,888	4,789
Auditors' remuneration* :		
Audit related services	385	438
Non-audit related services	29	116
Depreciation of property, plant and equipment (Note 3)	5,345	5,080
Amortisation of intangible assets (Note 4)	3,678	2,682
Reversal of impairment on receivables	(1,384)	(292)
Rental of offices	6,668	6,630
Entertainment and travelling	1,420	1,562
EDP expenses	10,812	8,691
Other expenses	68,081	61,852
	<u>204,305</u>	<u>177,770</u>

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

**(a) Employee benefits expense**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Wages, salaries and bonuses	84,905	73,253
Defined contribution retirement plan	13,244	11,915
Other employee benefits	6,235	1,054
	<u>104,384</u>	<u>86,222</u>



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**NOTES TO THE FINANCIAL STATEMENTS****22 . MANAGEMENT EXPENSES (CONT'D)****(b) GMD/CEO and directors' remuneration**

The total remuneration of the GMD/CEO and Directors are as follows:

	<b>Salaries and other remunerations RM'000</b>	<b>Director fees RM'000</b>	<b>Estimated monetary value for benefits in-kind RM'000</b>	<b>Total RM'000</b>
<b>2019</b>				
<b>GMD/CEO:</b>				
Loh Guat Lan:	3,604	-	640	4,244
<b>Non-executive directors:</b>				
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	10	150	-	160
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	12	155	-	167
YBhg Datin Ngiam Pick Ngoh	12	145	-	157
Shalet Marian	10	150	-	160
	<u>3,648</u>	<u>600</u>	<u>640</u>	<u>4,888</u>
<b>2018</b>				
<b>GMD/CEO:</b>				
Loh Guat Lan:	3,526	-	629	4,155
<b>Non-executive directors:</b>				
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>

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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**

	<b>Attributable to participating fund and unitholders RM'000</b>	<b>Attributable to shareholders' fund RM'000</b>	<b>Total RM'000</b>
<b>2019</b>			
<b>Current income tax:</b>			
Current financial year	41,041	27,415	68,456
(Over)/under provision in prior years	(1)	1,014	1,013
	<u>41,040</u>	<u>28,429</u>	<u>69,469</u>
<b>Deferred tax:</b>			
Origination and reversal of temporary differences (Note 13)	53,207	36,175	89,382
	<u>94,247</u>	<u>64,604</u>	<u>158,851</u>
<b>2018</b>			
<b>Current income tax:</b>			
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>
<b>Deferred tax:</b>			
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>

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### NOTES TO THE FINANCIAL STATEMENTS

#### 23 . TAXATION (CONT'D)

The income tax for the Shareholders' fund is calculated based on the tax rate of 24% (2018: 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% (2018: 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:

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Profit before taxation attributable to shareholders</b>	<u>285,654</u>	<u>274,227</u>
Taxation at Malaysian statutory tax rate of 24%	68,557	65,814
<b>Tax effects in respect of:</b>		
Income not subject to tax	(57,472)	(27,619)
Expenses not deductible for tax purpose	25,946	22,499
Effect of difference in tax rate	26,559	6,104
Under/(over) provision in prior years	1,014	(4,027)
Tax expense for the financial year	<u><u>64,604</u></u>	<u><u>62,771</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:

	<b>2019</b>
	<b>RM'000</b>
In respect of the financial year ended 30 June 2018:	
- Single-tier dividend of 50.0 sen per share	100,000
	<u>100,000</u>
	<b>2018</b>
	<b>RM'000</b>
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>

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 (2018: 200,000,000) ordinary shares in issue during the financial year.

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Net profit for the financial year	221,050	211,456
	<u>221,050</u>	<u>211,456</u>

#### 26 . CAPITAL COMMITMENTS

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

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Authorised and contracted for:		
Property and equipment	66	304
Intangible assets	1,960	896
	<u>2,026</u>	<u>1,200</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"><li>- All Directors of the Company</li><li>- Key management personnel of the Company who make certain critical decisions in relation to the strategic direction of the Company</li></ul>
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:

	<b>Immediate holding company RM'000</b>	<b>Ultimate holding company RM'000</b>	<b>Penultimate holding company RM'000</b>	<b>Other related parties RM'000</b>
<b>2019</b>				
<b>Assets</b>				
Financial assets	-	-	75,650	130,529
Receivables	-	-	10	2,965
Short term placements and fixed deposits	-	-	-	36
Cash and cash equivalents	-	-	-	760,798
	<u>-</u>	<u>-</u>	<u>75,660</u>	<u>894,328</u>
<b>Liabilities</b>				
Payables	-	2	571	6,370
	<u>-</u>	<u>2</u>	<u>571</u>	<u>6,370</u>
<b>2018</b>				
<b>Assets</b>				
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>
<b>Liabilities</b>				
Payables	80	2	209	9,525
	<u>80</u>	<u>2</u>	<u>209</u>	<u>9,525</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
<b>2019</b>				
<b>Income</b>				
Gross premium received/ receivable	-	-	72	43,058
Management and professional fee income	-	-	-	2,633
Rental income	-	-	35	8,395
Service support fees	298	-	-	3,948
Interest income	-	-	3,349	46,247
Dividend income	-	-	-	5,065
	<u>298</u>	<u>-</u>	<u>3,456</u>	<u>109,346</u>
<b>Expenditure</b>				
Gross premium paid	-	-	-	(242)
Commission paid/payable	-	-	-	(17,157)
Management and professional fee paid/payable	-	-	(1,677)	(1,513)
Authorised depository fee	-	-	-	(53)
Brokerage fee	-	-	-	(667)
Credit card merchant fees	-	-	-	(14,720)
Security guard services	-	-	-	(947)
Service support fees paid	-	-	-	(3,528)
Rental expenses	-	-	(232)	(38)
Logo fees	-	-	-	(82)
Bank charges	-	-	-	(372)
Custody Fee	-	-	-	(43)
Central depository fee	-	-	-	(4)
Building management fees	-	-	-	(903)
Purchase of used equipment/ motor vehicle	-	-	(1)	(180)
	<u>-</u>	<u>-</u>	<u>(1,910)</u>	<u>(40,449)</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
<b>2018</b>				
<b>Income</b>				
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
Dividend income	-	-	-	6,071
	<u>321</u>	<u>1,814</u>	<u>4,385</u>	<u>111,725</u>
<b>Expenditure</b>				
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>

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:

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Wages, salaries and bonuses	14,862	13,367
Defined contribution retirement plan	2,196	2,150
Other employee benefits	864	805
Directors' fees	600	582
	<u>18,522</u>	<u>16,904</u>
	<b>Units</b>	<b>Units</b>
	<b>'000</b>	<b>'000</b>
Share options exercised during the year	<u>1,434</u>	<u>1,260</u>
Included in the total key management personnel are: GMD/CEO and directors' remuneration (Note 22(b))	<u>4,888</u>	<u>4,789</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:

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Eligible Tier 1 capital</b>		
- Share capital (paid up) (Note 10)	200,000	200,000
- Reserves	4,149,605	3,760,891
<b>Eligible Tier 2 capital</b>		
- Eligible reserves	500,000	667,697
<b>Deductions</b>	(6,597)	(6,541)
	<u>4,843,008</u>	<u>4,622,047</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended 2019 and 2018.

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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:

	<b>Gross</b>			<b>Reinsurance</b>			<b>Net of reinsurance</b>		
	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2019</b>									
Whole Life	2,301,845	359,958	2,661,803	-	-	-	2,301,845	359,958	2,661,803
Endowment	3,543,319	250,817	3,794,136	-	-	-	3,543,319	250,817	3,794,136
Term	955,316	427,549	1,382,865	-	7,039	7,039	955,316	434,588	1,389,904
Accident and health	8,328	18,653	26,981	-	-	-	8,328	18,653	26,981
Annuity	484,952	6,017	490,969	-	-	-	484,952	6,017	490,969
Others	2,504,330	328,111	2,832,441	-	-	-	2,504,330	328,111	2,832,441
	<b>9,798,090</b>	<b>1,391,105</b>	<b>11,189,195</b>	<b>-</b>	<b>7,039</b>	<b>7,039</b>	<b>9,798,090</b>	<b>1,398,144</b>	<b>11,196,234</b>

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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):

	<b>Gross</b>			<b>Reinsurance</b>			<b>Net of reinsurance</b>		
	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>	<b>With DPF</b>	<b>Without DPF</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2018</b>									
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
	<u>9,050,956</u>	<u>1,079,574</u>	<u>10,130,530</u>	<u>-</u>	<u>(25,332)</u>	<u>(25,332)</u>	<u>9,050,956</u>	<u>1,054,242</u>	<u>10,105,198</u>

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 December 2018.

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:

	<b>Change in assumption</b>	<b>Impact on gross liabilities RM'000</b>	<b>Impact on net liabilities RM'000</b>	<b>Impact on profit after tax RM'000</b>	<b>Impact on equity RM'000</b>
	<b>%</b>				
<b>2019</b>					
Mortality and morbidity	+ 10	114,458	97,132	(69,066)	(69,066)
Mortality and morbidity	- 10	(110,836)	(93,463)	66,179	66,179
Discount rate	- 0.5	234,632	234,954	(74,467)	(74,467)
Expenses	+ 10	34,195	34,195	(17,985)	(17,985)
Lapse and surrender	+ 10	(25,182)	(25,870)	(3,747)	(3,747)
Lapse and surrender	- 10	25,414	26,231	4,990	4,990
<b>2018</b>					
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

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 Company is exposed to a range of financial risks, including credit risk, liquidity risk and market risk.

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**

The table below shows the maximum exposure to credit risk for the components on the statements of financial position. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting or collateral agreements.

	<b>Insurance and Shareholders' Funds RM'000</b>	<b>Investment- Linked Funds RM'000</b>	<b>Total RM'000</b>
<b>2019</b>			
HFT financial assets	14,795,390	2,424,920	17,220,310
AC financial assets	1,286,069	37,775	1,323,844
Derivative assets	13,533	211	13,744
Reinsurance assets	15,658	-	15,658
Insurance receivables	88,722	-	88,722
Other receivables	20,101	1,396	21,497
Cash and balances	1,054,152	117,732	1,171,884
	<u>17,273,625</u>	<u>2,582,034</u>	<u>19,855,659</u>
<b>2018</b>			
HTM financial assests	611,075	-	611,075
AFS financial assets	10,904,597	-	10,904,597
HFT financial assets	1,534,896	1,866,265	3,401,161
Loan and receivables	829,793	16,740	846,533
Derivative assets	24,104	-	24,104
Reinsurance assets	49,908	-	49,908
Insurance receivables	114,940	-	114,940
Other receivables	57,304	18,441	75,745
Cash and balances	1,397,011	197,604	1,594,615
	<u>15,523,628</u>	<u>2,099,050</u>	<u>17,622,678</u>

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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:

	<b>Neither past-due nor impaired</b>				<b>Not subject to credit risk</b>	<b>Past-due but not impaired</b>	<b>Total</b>
	<b>Investment grade</b>			<b>Not rated</b>			
	<b>AAA to AA</b>	<b>A</b>	<b>BBB to BB</b>				
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2019</b>							
FVTPL financial assets	5,812,472	485,261	83,490	6,621,038	4,218,049	-	17,220,310
AC financial assets	760,965	-	-	562,879	-	-	1,323,844
Derivatives	13,744	-	-	-	-	-	13,744
Reinsurance assets	4,323	749	-	10,586	-	-	15,658
Insurance receivables	-	-	-	88,722	-	-	88,722
Other receivables *	-	-	-	21,497	-	-	21,497
Cash and cash equivalents	1,171,746	-	-	138	-	-	1,171,884
	<b>7,763,250</b>	<b>486,010</b>	<b>83,490</b>	<b>7,304,860</b>	<b>4,218,049</b>	<b>-</b>	<b>19,855,659</b>

\* Other receivables as at 30 June 2019 excluded sundry deposits, GST recoverable & prepayments of RM5,371,485.06.

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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)

	<b>Neither past-due nor impaired</b>				<b>Not subject to credit risk</b>	<b>Past-due but not impaired</b>	<b>Total</b>
	<b>Investment grade</b>						
	<b>AAA to AA</b>	<b>A</b>	<b>BBB</b>	<b>Not rated</b>			
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2018</b>							
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
	<b>7,447,520</b>	<b>338,277</b>	<b>152,866</b>	<b>6,215,833</b>	<b>3,467,115</b>	<b>1,067</b>	<b>17,622,678</b>

\* 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)****Reconciliation of allowance account**

A reconciliation of the allowance for impairment losses for insurance receivables and other receivables are as follows:

	<b>Insurance receivables RM'000</b>	<b>Other receivables RM'000</b>	<b>Total RM'000</b>
At 1 July 2017	801	-	801
Write back for the financial year	(292)	-	(292)
At 30 June 2018	<u>509</u>	<u>-</u>	<u>509</u>
At 1 July 2018	509	-	509
- Effects on adoption of MFRS 9 (Note 36)	6,773	-	6,773
As restated at 1 July 2018	7,282	-	7,282
(Write back)/charge for the financial year	(1,428)	44	(1,384)
At 30 June 2019	<u>5,854</u>	<u>44</u>	<u>5,898</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**31 . FINANCIAL RISKS (CONT'D)**

**(a) Credit risk (cont'd)**

**Collateral**

Credit risk is mitigated by entering into collateral agreements.

**(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****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:

	<b>Carrying value RM'000</b>	<b>Up to 1 year RM'000</b>	<b>1 to 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No maturity date RM'000</b>	<b>Total RM'000</b>
<b>2019</b>						
FVTPL financial assets	17,220,310	567,132	2,801,070	9,634,059	4,218,049	17,220,310
AC financial assets	1,323,844	1,273,273	50,571	-	-	1,323,844
Derivative assets	13,744	854	12,890	-	-	13,744
Reinsurance assets	15,658	15,658	-	-	-	15,658
Insurance receivables	88,722	88,722	-	-	-	88,722
Other receivables *	21,497	21,497	-	-	-	21,497
Cash and cash equivalents	1,171,884	1,171,884	-	-	-	1,171,884
<b>Total financial assets</b>	<b>19,855,659</b>	<b>3,139,020</b>	<b>2,864,531</b>	<b>9,634,059</b>	<b>4,218,049</b>	<b>19,855,659</b>

\* Other receivables as at 30 June 2019 excluded sundry deposits, GST recoverable & prepayments of RM5,371,485.06.

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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)

	<b>Carrying value RM'000</b>	<b>Up to 1 year RM'000</b>	<b>1 to 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No maturity date RM'000</b>	<b>Total RM'000</b>
<b>2018</b>						
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
<b>Total financial assets</b>	<b>17,622,678</b>	<b>4,364,928</b>	<b>2,206,897</b>	<b>7,583,738</b>	<b>3,467,115</b>	<b>17,622,678</b>

\* 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 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:

	<b>Carrying value RM'000</b>	<b>Up to 1 year RM'000</b>	<b>1 to 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>2019</b>					
Insurance contract liabilities:					
-With DPF	10,563,214	1,129,110	3,246,197	15,748,440	20,123,747
-Without DPF	4,026,985	2,777,911	412,132	2,648,532	5,838,575
Insurance payables	2,948,896	2,948,896	-	-	2,948,896
Other payables	251,268	251,268	-	-	251,268
Derivative liabilities	19,496	197	19,299	-	19,496
Subordinated notes	507,726	22,385	89,353	522,397	634,135
Total financial liabilities	<u>18,317,585</u>	<u>7,129,767</u>	<u>3,766,981</u>	<u>18,919,369</u>	<u>29,816,117</u>

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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)

	<b>Carrying value RM'000</b>	<b>Up to 1 year RM'000</b>	<b>1 to 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Total RM'000</b>
<b>2018</b>					
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)**

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:

	<b>Financial assets RM'000</b>
<b>2019</b>	
Singaporean dollar	74,589
US dollar	285,899
Australian dollar	23,922
Euro	1
Hong Kong dollar	198,970
Total	<u>583,381</u>
<b>2018</b>	
Singaporean dollar	28,688
US dollar	265,277
Australian dollar	21,504
Euro	1
Hong Kong dollar	130,786
Total	<u>446,256</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.

		<b>Impact on profit after tax</b>	<b>Impact on equity *</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>2019</b>			
<b>Change in currency rates:</b>			
Singaporean dollar	+ 5%	(1,118)	(1,118)
US dollar	+ 5%	(568)	(568)
Hong Kong dollar	+ 5%	(345)	(345)
Singaporean dollar	- 5%	1,118	1,118
US dollar	- 5%	568	568
Hong Kong dollar	- 5%	345	345
<b>2018</b>			
<b>Change in currency rates:</b>			
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

\* 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*	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Change in interest rate:				
+ 100 basis point	(133,776)	(84,276)	(133,776)	(104,436)
- 100 basis point	152,375	97,081	152,375	119,427

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

The above impact arose from investments in fixed income securities which are classified as 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 profit after tax		Impact on equity*	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Change in equity market price:				
+ 20%	39,430	-	39,430	36,171
- 20%	(39,430)	-	(39,430)	(36,171)

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

The above impact on equity arose from the investments in equities which are classified as 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 in financial year ended 2018.

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**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2019</b>				
<b><u>Recurring fair value measurements</u></b>				
<b>Financial assets</b>				
FVTPL financial assets	4,199,543	13,001,083	19,684	17,220,310
Derivative assets	-	13,744	-	13,744
Total assets	<u>4,199,543</u>	<u>13,014,827</u>	<u>19,684</u>	<u>17,234,054</u>
<b>Financial liabilities</b>				
Derivative liabilities	-	19,496	-	19,496
Total liabilities	<u>-</u>	<u>19,496</u>	<u>-</u>	<u>19,496</u>
<b>2018</b>				
<b><u>Recurring fair value measurements</u></b>				
<b>Financial assets</b>				
AFS financial assets	2,392,901	8,509,549	2,147	10,904,597
FVTPL financial assets	1,072,067	2,329,094	-	3,401,161
Derivative assets	-	24,104	-	24,104
Total assets	<u>3,464,968</u>	<u>10,862,747</u>	<u>2,147</u>	<u>14,329,862</u>
<b>Financial liabilities</b>				
Derivative liabilities	-	17,514	-	17,514
Total liabilities	<u>-</u>	<u>17,514</u>	<u>-</u>	<u>17,514</u>

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

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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 (cont'd)**

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

	<b>AFS financial assets RM'000</b>	<b>FVTPL financial assets RM'000</b>	<b>Total RM'000</b>
At 1 July 2017/30 June 2018	2,147	-	2,147
At 1 July 2018	2,147	-	2,147
- Effects on adoption of MFRS 9 (Note 36)	(2,147)	17,880	15,733
As restated at 1 July 2018	-	17,880	17,880
Fair value gains	-	1,804	1,804
At 30 June 2019	-	19,684	19,684

**(b) Fair value of financial instruments carried at amortised cost**

There is no financial instrument carried at amortised cost for the financial year ended 2019 (2018: Fair value of HTM financial assets amounting to RM620,605,000 are classified as Level 2).

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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 2019**

	<b>Shareholders' Fund RM'000</b>	<b>Life Fund RM'000</b>	<b>Investment -linked Fund RM'000</b>	<b>Inter-fund elimination RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>					
Property, plant and equipment	2,100	79,069	-	-	81,169
Intangible assets	-	6,597	-	-	6,597
Investment properties	225,000	264,500	-	-	489,500
Financial assets	877,130	15,204,329	2,462,695	-	18,544,154
- FVTPL financial assets	877,094	13,918,296	2,424,920	-	17,220,310
- AC financial assets	36	1,286,033	37,775	-	1,323,844
Derivative assets	23	13,510	211	-	13,744
Reinsurance assets	-	15,658	-	-	15,658
Insurance receivables	-	88,722	-	-	88,722
Other receivables	1,440,006	24,544	1,396	(1,439,078)	26,868
Cash and cash equivalents	22,300	1,031,852	117,732	-	1,171,884
<b>Total assets</b>	2,566,559	16,728,781	2,582,034	(1,439,078)	20,438,296

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**NOTES TO THE FINANCIAL STATEMENTS****33 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2019 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
<b>Equity, policyholders' fund and liabilities</b>					
Share capital	200,000	-	-	-	200,000
Reserves	1,590,026	-	-	-	1,590,026
<b>Total equity</b>	<b>1,790,026</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,790,026</b>
Insurance contract liabilities	-	12,017,561	2,572,638	-	14,590,199
Deferred tax liabilities	239,682	73,679	5,516	-	318,877
Tax payables	801	10,435	572	-	11,808
Insurance payables	-	2,948,896	-	-	2,948,896
Other payables	28,324	1,658,714	3,308	(1,439,078)	251,268
Derivative liabilities	-	19,496	-	-	19,496
Subordinated notes	507,726	-	-	-	507,726
<b>Total policyholders' fund and liabilities</b>	<b>776,533</b>	<b>16,728,781</b>	<b>2,582,034</b>	<b>(1,439,078)</b>	<b>18,648,270</b>
<b>Total equity, policyholders' fund and liabilities</b>	<b>2,566,559</b>	<b>16,728,781</b>	<b>2,582,034</b>	<b>(1,439,078)</b>	<b>20,438,296</b>

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**NOTES TO THE FINANCIAL STATEMENTS****33 . INSURANCE FUNDS (CONT'D)****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
<b>Assets</b>					
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
<b>Total assets</b>	<b>2,398,940</b>	<b>14,993,554</b>	<b>2,099,050</b>	<b>(1,280,279)</b>	<b>18,211,265</b>

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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
<b>Equity, policyholders' fund and liabilities</b>					
Share capital	200,000	-	-	-	200,000
Reserves	1,460,374	-	-	-	1,460,374
<b>Total equity</b>	<b>1,660,374</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,660,374</b>
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
<b>Total policyholders' fund and liabilities</b>	<b>738,566</b>	<b>14,993,554</b>	<b>2,099,050</b>	<b>(1,280,279)</b>	<b>16,550,891</b>
<b>Total equity, policyholders' fund and liabilities</b>	<b>2,398,940</b>	<b>14,993,554</b>	<b>2,099,050</b>	<b>(1,280,279)</b>	<b>18,211,265</b>

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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 2019**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Gross earned premiums	-	2,191,670	608,861	-	2,800,531
Premiums ceded to reinsurers	-	(107,037)	-	-	(107,037)
<b>Net earned premiums</b>	-	2,084,633	608,861	-	2,693,494
Investment income	33,135	690,735	59,917	-	783,787
Realised losses	(240)	(7)	(590)	-	(837)
Fair value gains	5,613	745,571	46,424	-	797,608
Fees and commission income	-	28,217	-	(13,615)	14,602
Other operating income-net	3,132	36,659	(20,668)	-	19,123
<b>Other revenue</b>	41,640	1,501,175	85,083	(13,615)	1,614,283
Gross benefits and claims paid	-	(1,467,886)	(186,991)	-	(1,654,877)
Claims ceded to reinsurers	-	68,849	-	-	68,849
Gross change to contract liabilities	-	(1,221,999)	(486,985)	-	(1,708,984)
Change in contract liabilities ceded to reinsurers	-	(32,371)	-	-	(32,371)
<b>Net claims</b>	-	(2,653,407)	(673,976)	-	(3,327,383)
Fees and commission expense	1,672	(375,183)	(13,615)	13,615	(373,511)
Management expenses	(27,610)	(176,706)	11	-	(204,305)
<b>Other expenses</b>	(25,938)	(551,889)	(13,604)	13,615	(577,816)
Finance costs	(22,677)	-	-	-	(22,677)
<b>Profit from operations</b>	(6,975)	380,512	6,364	-	379,901



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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 2019 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
<b>Profit from operations</b>	(6,975)	380,512	6,364	-	379,901
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	125,000	(125,000)	-	-	-
<b>Profit before taxation</b>	118,025	255,512	6,364	-	379,901
Taxation	(44,557)	(107,930)	(6,364)	-	(158,851)
<b>Net profit for the financial year</b>	73,468	147,582	-	-	221,050

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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)
<b>Net earned premiums</b>	<b>-</b>	<b>2,281,505</b>	<b>582,102</b>	<b>-</b>	<b>2,863,607</b>
Investment income	38,219	647,959	43,411	-	729,589
Realised gains	30,789	95,390	2,649	-	128,828
Fair value (losses)/gains	(42)	20,363	(114,446)	-	(94,125)
Fees and commission income	-	27,274	-	(14,163)	13,111
<b>Other revenue</b>	<b>68,966</b>	<b>790,986</b>	<b>(68,386)</b>	<b>(14,163)</b>	<b>777,403</b>
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
<b>Net claims</b>	<b>-</b>	<b>(2,131,426)</b>	<b>(481,865)</b>	<b>-</b>	<b>(2,613,291)</b>
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)
<b>Other expenses</b>	<b>(8,419)</b>	<b>(663,208)</b>	<b>(38,602)</b>	<b>14,163</b>	<b>(696,066)</b>
Finance costs	(22,677)	-	-	-	(22,677)
<b>Profit from operations</b>	<b>37,870</b>	<b>277,857</b>	<b>(6,751)</b>	<b>-</b>	<b>308,976</b>

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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
<b>Profit from operations</b>	37,870	277,857	(6,751)	-	308,976
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	111,672	(111,672)	-	-	-
<b>Profit before taxation</b>	149,542	166,185	(6,751)	-	308,976
Taxation	(54,045)	(50,226)	6,751	-	(97,520)
<b>Net profit for the financial year</b>	95,497	115,959	-	-	211,456

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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:

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Statement of financial position</u></b>		
<b>Assets</b>		
Financial assets - FVTPL financial assets	3,688	3,358
<b>Liabilities</b>		
Tax payables	(10)	(10)
Deferred tax liabilities	(3)	(8)
Total liabilities	(13)	(18)
<b>Net asset value</b>	<b>3,701</b>	<b>3,376</b>
<b><u>Statement of comprehensive income</u></b>		
<b>Net earned premiums</b>	267	-
Fair value gains/(losses)	63	(197)
<b>Other revenue</b>	63	(197)
Gross benefits and claims paid	-	(228)
Gross change to contract liabilities	(325)	409
<b>Net claims</b>	(325)	181
<b>Profit/(losses) before taxation</b>	5	(16)
Taxation	(5)	16
<b>Net profit for the financial year</b>	<b>-</b>	<b>-</b>

## HONG LEONG ASSURANCE BERHAD

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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 is 5.2 years from grant date. The weighted average remaining option life as at 30 June 2019 is 0.96 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.

##### 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 1.40 to 5.40 years from grant date. The weighted average remaining option life as at 30 June 2019 is 2.37 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 ESOS and it is administered by an appointed trustee.

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

	<b>2019</b>	<b>2018</b>
	<b>'000 units</b>	<b>'000 units</b>
As at 1 July	2,518	3,964
Exercised	(1,434)	(1,446)
As at 30 June	<u>1,084</u>	<u>2,518</u>

The remaining number of outstanding options are as follows:

	<b>Options 2015</b>		<b>Options 2018</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>'000 units</b>	<b>'000 units</b>	<b>'000 units</b>	<b>'000 units</b>
As at 1 July	2,169	10,570	9,750	-
Granted	-	-	-	10,450
Exercised	(1,434)	(1,446)	-	-
Ceased/forfeited	(18)	(6,955)	-	(700)
As at 30 June	<u>717</u>	<u>2,169</u>	<u>9,750</u>	<u>9,750</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:

	<b>Options 2015</b>		<b>Options 2018</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Fair value of share options (RM)	2.38	2.30 - 2.90	1.51-3.20	2.16 - 3.90
Share price at valuation date (RM)	18.54	18.00	18.54	18.00
Adjusted exercise price (RM)	16.61	16.61	-	-
Original exercise price (RM)	16.88	16.88	17.12	17.12
Expected volatility (%)	16.29	21.37	16.29	21.37
Weighted average dividend yield (%)	2.27	2.25	2.27	2.25
Weighted average risk free rate (%)	3.10	3.35	3.10	3.35

During the financial year, the Company had recognised share-based compensation income amounting to RM2,413,097 (share-based compensation expense for 2018: RM2,393,827).

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**NOTES TO THE FINANCIAL STATEMENTS****36 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS**

The following table analyses the impact of transition on the Statements of Financial Position of the Company from MFRS 139 to MFRS 9 as at 1 July 2018:

	<b>30.6.2018</b>	<b>Classification and measurement</b>	<b>1.7.2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>			
Property, plant and equipment	83,434	-	83,434
Intangible assets	6,541	-	6,541
Investment properties	494,164	-	494,164
Financial assets	15,763,366	25,236	15,788,602
- HTM financial assets	611,075	(611,075)	-
- AFS financial assets	10,904,597	(10,904,597)	-
- FVTPL financial assets	3,401,161	11,540,908	14,942,069
- Loans and Receivables	846,533	(846,533)	-
- AC financial assets	-	846,533	846,533
Derivative assets	24,104	-	24,104
Reinsurance assets	49,908	-	49,908
Insurance receivables	114,940	(6,773)	108,167
Other receivables	80,133	-	80,133
Non-current assets held-for-sale	60	-	60
Cash and cash equivalents	1,594,615	-	1,594,615
<b>Total assets</b>	<b>18,211,265</b>	<b>18,463</b>	<b>18,229,728</b>
<b>Equity, policyholders' fund and liabilities</b>			
Share capital	200,000	-	200,000
Reserves	1,460,374	8,602	1,468,976
<b>Total equity</b>	<b>1,660,374</b>	<b>8,602</b>	<b>1,668,976</b>
Insurance contract liabilities	12,888,019	6,073	12,894,092
Deferred tax liabilities	225,707	3,788	229,495
Tax payables	21,482	-	21,482
Insurance payables	2,630,836	-	2,630,836
Other payables	259,784	-	259,784
Derivative liabilities	17,514	-	17,514
Subordinated notes	507,549	-	507,549
<b>Total policyholders' fund and liabilities</b>	<b>16,550,891</b>	<b>9,861</b>	<b>16,560,752</b>
<b>Total equity, policyholders' fund and liabilities</b>	<b>18,211,265</b>	<b>18,463</b>	<b>18,229,728</b>

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**NOTES TO THE FINANCIAL STATEMENTS****36 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D)**

The following table analyses the impact of transition on the Statements of Financial Position of the Company from MFRS 139 to MFRS 9 as at 1 July 2018: (cont'd)

	<b>RM'000</b>
<b>HTM financial assets</b>	
Closing balance under MFRS 139 as at 30 June 2018	611,075
- redesignation to FVTPL financial assets	(611,075)
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	-
	<hr/> <hr/>
<b>AFS financial assets</b>	
Closing balance under MFRS 139 as at 30 June 2018	10,904,597
- redesignation to FVTPL financial assets	(10,904,597)
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	-
	<hr/> <hr/>
<b>FVTPL financial assets</b>	
Closing balance under MFRS 139 as at 30 June 2018	3,401,161
- redesignation from HTM financial assets	611,075
- redesignation from AFS financial assets	10,904,597
- unrealised gains on redesignation from HTM financial assets	9,530
- unrealised gains on redesignation from AFS financial assets	15,706
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	14,942,069
	<hr/> <hr/>
<b>Loans and receivables</b>	
Closing balance under MFRS 139 as at 30 June 2018	846,533
- redesignation to amortised cost	(846,533)
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	-
	<hr/> <hr/>
<b>Amortised cost</b>	
Closing balance under MFRS 139 as at 30 June 2018	-
- redesignation from loans and receivables	846,533
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	846,533
	<hr/> <hr/>



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**NOTES TO THE FINANCIAL STATEMENTS****36 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D)**

The following table analyses the impact of transition on the Statements of Financial Position of the Company from MFRS 139 to MFRS 9 as at 1 July 2018: (cont'd)

	<b>RM'000</b>
<b>Insurance receivables</b>	
Closing balance under MFRS 139 as at 30 June 2018	114,940
- recognition of expected credit losses under MFRS 9	(6,773)
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	<u>108,167</u>
<b>Reserves - distributable retained earnings</b>	
Closing balance under MFRS 139 as at 30 June 2018	491,362
- transfer from fair value reserves	24,234
- unrealised losses on redesignation from AFS financial assets	(26)
- tax effect arising from the unrealised losses on redesignation from AFS financial assets	7
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	<u>515,577</u>
<b>Reserves - non-distributable retained earnings</b>	
Closing balance under MFRS 139 as at 30 June 2018	942,558
- transfer from reserves - fair value	2,220
- unrealised gains on redesignation from HTM financial assets	334
- tax effect arising from the unrealised gains on redesignation from HTM financial assets	(60)
- unrealised gains on redesignation from AFS financial assets	14,473
- tax effect arising from the unrealised gains on redesignation from AFS financial assets	(2,605)
- recognition of expected credit losses under MFRS 9	(4,294)
- tax effect arising from the recognition of expected credit losses under MFRS 9	773
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	<u>953,399</u>
<b>Reserves - fair value</b>	
Closing balance under MFRS 139 as at 30 June 2018	26,454
- transfer to reserves - distributable retained earnings	(24,234)
- transfer to reserves - non-distributable retained earnings	(2,220)
	<hr/>
Opening balance under MFRS 9 as at 1 July 2018	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS****36 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D)**

The following table analyses the impact of transition on the Statements of Financial Position of the Company from MFRS 139 to MFRS 9 as at 1 July 2018: (cont'd)

**Insurance contract liabilities**

Closing balance under MFRS 139 as at 30 June 2018	12,888,019
- transfer from fair value adjustment on AFS financial assets	140,754
- transfer to unallocated surplus	(140,754)
- unrealised gains on redesignation from HTM financial assets	9,167
- tax effect arising from the unrealised gains on redesignation from HTM financial assets	(615)
- recognition of expected credit losses under MFRS 9	(2,479)
Opening balance under MFRS 9 as at 1 July 2018	<u>12,894,092</u>

**Deferred tax liabilities**

Closing balance under MFRS 139 as at 30 June 2018	225,707
- transfer to unallocated surplus	2,379
- unrealised gains on redesignation from HTM financial assets	644
- unrealised gains on redesignation from FVTPL financial assets	19,593
- unrealised gains on redesignation from AFS financial assets	(18,828)
Opening balance under MFRS 9 as at 1 July 2018	<u>229,495</u>