

Registration No. 198201014849 (94613-X)

HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2020.

PRINCIPAL ACTIVITIES

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.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	141,240

DIVIDENDS

Since the last financial year ended 30 June 2019, a final single-tier dividend of 25.0 sen per share amounting to RM50,000,000 in respect of the financial year ended 30 June 2019, was paid on 20 December 2019.

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

SHARE CAPITAL

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

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

PROVISION FOR INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework for licensed insurers issued by Bank Negara Malaysia ("BNM").

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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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CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There have been no significant changes in the nature of the principal activities during the financial year other than as stated in Note 37.

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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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.

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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'. In addition, the Company also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the Company.

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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 2020, 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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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

III Board Meetings

The Board met seven (7) times during the financial year ended 30 June 2020 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)	7/7
Mr Tan Kong Khoon	7/7
Mr Masakatsu Komaita	7/7
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	7/7
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	7/7
YBhg Datin Ngiam Pick Ngoh	7/7
Ms Shalet Marian	6/7

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile

YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Executive/Non-Independent

Age 77, 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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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MR TAN KONG KHOON

Executive Director/Non-Independent

Age 63, 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 Advanced Management Program. He is a Chartered Banker of the Asian Institute of Chartered Bankers.

Mr Tan is the President & Chief Executive Officer of HLFGB. He was the GMD/CEO 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 HLFGB and HLB, companies listed on the Main Market of Bursa Malaysia Securities Berhad; and a Director of Hong Leong Investment Bank Berhad, a public company. He is also the Chairman of Hong Leong Bank (Cambodia) PLC and Chief Controller on the Board of Controllers of Hong Leong Bank Vietnam Limited.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MR MASAKATSU KOMAITA

Non-Executive Director/Non-Independent

Age 58, Male, Japanese

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 33 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 position as Assistant General Manager, Corporate Planning of Asian Life Insurance Business Department in 2012. Mr Masakatsu Komaita was promoted to the position of General Manager on 1 April 2014 where he was responsible for business expansion into Asian local insurance business in Malaysia.

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

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

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

YBHG DATO' SIOW KIM LUN @ SIOW KIM LIN

Non-Executive Director/Independent

Age 70, 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 Hwang 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, Radiant Globaltech Berhad and RHB Investment Bank Berhad.

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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 62, 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 and the Diploma in Marketing from the Chartered Institute of Marketing. He is a 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 Deutsche Bank (Malaysia) Berhad and an Independent Director of HLMT and Hong Leong Asset Management Bhd. He is also the Chairman of Financial Services Professional Board ("FSPB"), which was established by BNM and Securities Commission Malaysia in 2014.

He was previously the Chairman of VADS Berhad, a wholly-owned subsidiary of Telekom Malaysia Berhad ("TM"), the Senior Independent Director of TM, an INED of Hong Leong Islamic Bank Berhad and SapuraKencana Petroleum Berhad/Kencana Petroleum Berhad and a Non-Independent Non-Executive Director of Malaysia Airports 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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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

YBHG DATIN NGIAM PICK NGOH

Non-Executive Director/Independent

Age 65, 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 GMD/CEO 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.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MS SHALET MARIAN

Non-Executive Director/Independent

Age 64, 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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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 2020, 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.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Training (cont'd)

During the financial year ended 30 June 2020, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- FIDE Core Programme (Bank): Module B
- Islamic Finance for Board of Directors Programme
- Anti-Money Laundering Act (AMLA) Training 2019
- Islamic Jurisprudence and Its Application in Islamic Finance
- Workshop on the Internal Capital Adequacy Assessment Process (ICAAP)
- Asset-Liability and Risk Management - Regulatory Principles and Market Best Practice
- Digital Banking: Why Does It Matter?
- COVID-19 and Current Economic Reality: Implications for Financial Stability
- Breakfast Talk on MFRS 17: Understanding Its Impact and Consequences
- Capital Market Director Programme
- International Directors Summit 2019 - The Trust Compass: Resetting the Course
- Enlightenment Training of Human Rights
- Legal Compliance Training
- Petronas Director Development Program
- AMLA/Counter Financing and Terrorism (CFT) Training
- The 4th Chancellor Tuanku Muhriz Lecture: "Apakah Governans Yang Baik, Bagus Untuk Pembangunan?"
- Khazanah Megatrends
- BOLD 3.0: Future Fluent Board Leadership in Asia
- Tax Forum
- FIDE Elective Programme - Understanding Fintech and its Implication for Insurance Companies
- International Accountants Conference 2019

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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

(Independent Non-Executive Director of HLMT and HLA)

Ms Shalet Marian

(Independent Non-Executive Director of HLA)

Mr Martin Giles Manen

(Chairman, Independent Non-Executive Director of HLMT)

SECRETARY

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

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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 auditor.
- 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 Group'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.

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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.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC of HLAH (cont'd)

Terms of Reference (cont'd)

Internal Audit (cont'd)

- 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.
- To note significant disagreements between the Head of Insurance Audit and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact, the disagreements may have on the audit process or findings.
- Other audit functions as may be agreed to by the GBAC and the Board of HLAH and its subsidiaries.

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.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC of HLAH (cont'd)

Group Governance (cont'd)

- The GBAC 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.
- 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 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.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC of HLAH (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 financial updates 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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC of HLAH (cont'd)

Activities

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

During the financial year ended 30 June 2020, eight (8) GBAC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Lim Tau Kien	8/8
YBhg Dato Siow Kim Lun @ Siow Kim Lin	8/8
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	8/8
Ms Shalet Marian	7/8
Mr Martin Giles Manen	8/8

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 2020, IAD carried out its duties covering key audit areas on actuarial, operational, investment, information systems, risk management, branches 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 RM833,530 (2019: RM803,461).

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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

(Independent Non-Executive Director of HLMT and HLA)

YBhg Datin Ngiam Pick Ngoh

(Independent Non-Executive Director of HLA)

Encik Zulkiflee bin Hashim

(Independent Non-Executive Director of HLMT)

SECRETARY

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

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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"), including management's stress testing programme, 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 periodic reports on risk appetite, risk exposure, risk portfolio composition 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 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.

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

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(b) GBRMC of HLAH (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 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.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(b) GBRMC of HLAH (cont'd)

Meetings (cont'd)

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.

Activities

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

During the financial year ended 30 June 2020, eight (8) GBRMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Koid Swee Lian	8/8
YBhg Dato Siow Kim Lun @ Siow Kim Lin	8/8
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	8/8
YBhg Datin Ngiam Pick Ngoh	8/8
Encik Zulkiflee bin Hashim	8/8

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CORPORATE GOVERNANCE (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.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(c) NC (cont'd)

During the financial year ended 30 June 2020, two (2) 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	2/2
Mr Tan Kong Khoon	2/2
YBhg Datin Ngiam Pick Ngoh	2/2

(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.

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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 2020, one (1) RC Meeting was held and the attendance of Members was as follows:

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

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 its Annual General Meeting.

Disclosure

The detailed remuneration of each Director during the financial year ended 30 June 2020 is set out in Note 23(b) to the financial statements.

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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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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)
Fixed Remuneration				
• Cash-based	1,620,000	-	10,120,623	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
Variable Remuneration				
• Cash-based	2,129,177	-	3,766,927	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-

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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, the tenure of an independent Director shall not exceed a cumulative term of 9 years from the date of his or her first appointment in the Company. Upon completion of the 9 years, an independent Director shall retire on the expiry date of his or her term of office approved by BNM.

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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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 qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 235 of the Companies Act 2016. They support the effective functioning of the Board, provide 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 Secretaries 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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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 Control 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 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.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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 processes 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
- Anti-Corruption System Policy
- Donation Policy
- Code of Conduct and Ethics
- Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions 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 and Compliance Self-Assessment tools are established in the Company. The results of the assessment are reported to the EXCO Committee and Group Board Risk Management Committee and subsequently to the Board via Group Board Risk Management Committee's highlights.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

F. Internal Controls Framework (cont'd)

(d) Monitoring and Reporting

The Company has identified the key risks that have significant impact on its capital adequacy risk, strategic risk, credit risk, market risk, interest rate risk, liquidity risk, information technology risk, insurance risk, operational risk, property 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.

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.

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 28 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.

HONG LEONG ASSURANCE BERHAD

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(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)**CORPORATE GOVERNANCE (CONT'D)****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 recommendations after the conclusion of the audit.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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******

	Nominal value per share RM (unless indicated)	As at 1/7/2019	Acquired	(Sold/ exercised)	As at 30/6/2020
Interests of					
YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	390,000	-	-	390,000
Hong Leong Financial Group Berhad	(1)	5,438,664	-	-	5,438,664
Guoco Group Limited	USD0.50	1,056,325	-	-	1,056,325
GuocoLand Limited	(2)	13,333,333	-	-	13,333,333
GuocoLand (Malaysia) Berhad	(1)	19,506,780	-	-	19,506,780
GL Limited	USD0.20	735,000	-	-	735,000
The Rank Group Plc	GBP13 ^{8/9} p	285,207	-	-	285,207

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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****	As at <u>1/7/2019</u>	<u>Acquired</u>	<u>(Sold/ exercised)</u>	As at <u>30/6/2020</u>
Nominal value per share RM (unless indicated)					
Interests of Mr Tan Kong Khoon in: Hong Leong Financial Group Berhad		8,000,000 *	-	-	8,000,000 *
Interests of YBhg Dato' Siow Kim Lun @ Siow Kim Lin in: GuocoLand (Malaysia) Berhad	(1)	15,000	-	-	15,000
Interests of YBhg Datin Ngiam Pick Ngoh in: Hong Leong Bank Berhad	(1)	5,000	-	-	5,000

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Interest of	Nominal value per share RM (unless indicated)	As at 1/7/2019	Acquired	(Sold/ exercised)	As at 30/6/2020
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****					
YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	(1)	7,651,455 (6)	-	-	7,651,455 (6)
Hong Leong Financial Group Berhad	(1)	894,718,726 (6)	-	-	894,718,726 (6)
Hong Leong Capital Berhad	(1)	200,805,058	-	-	200,805,058
Hong Leong Bank Berhad	(1)	1,346,237,169	-	(209,960)	1,346,027,209
		800,000,000 ***	-	-	800,000,000 ***
		1,500,000,000 ****	-	-	1,500,000,000 ****
Hong Leong MSIG Takaful Berhad	(1)	130,000,000	-	-	130,000,000
Hong Leong Assurance Berhad	(1)	140,000,000	-	-	140,000,000
Hong Leong Islamic Bank Berhad		400,000,000 ***	-	-	400,000,000 ***
		400,000,000 ****	-	-	400,000,000 ****

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Interest of	Nominal value per share RM (unless indicated)	As at 1/7/2019	Acquired	(Sold/ exercised)	As at 30/6/2020
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****					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Hong Leong Industries Berhad	(1)	242,700,470 ⁽⁶⁾	132,500	(44,167)	242,788,803 ⁽⁶⁾
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
Malaysian Pacific Industries Berhad	(1)	108,853,457	175,500	(74,167)	108,954,790
Carter Resources Sdn Bhd	(1)	5,640,607	-	-	5,640,607
Carsem (M) Sdn Bhd	(1)	84,000,000	-	-	84,000,000
Hume Industries Berhad	(1)	22,400 ⁽⁷⁾	-	-	22,400 ⁽⁷⁾
	(1)	350,231,658 ⁽⁶⁾	-	-	350,231,658 ⁽⁶⁾
	(1)	195,510,374 ^{** (6)}	-	(3,571,428) ^{** (6)}	191,938,946 ^{** (6)}
		3,830,000 ^{* (6)}	-	-	3,830,000 ^{* (6)}

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Interest of	Nominal value per share	As at 1/7/2019	Acquired	(Sold/ exercised)	As at 30/6/2020
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****					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
Guoco Group Limited	USD0.50 (2)	237,124,930	-	-	237,124,930
GuocoLand Limited		818,093,030 (6)	18,475,308	-	836,568,338 (6)
		238,000 *(6)	-	-	238,000 *(6)
Southern Steel Berhad	(1)	292,169,709	140,076,337 (10)	(15,000,000)	417,246,046
	(1)	140,076,337 **	-	(140,076,337) ***(10)	-
Southern Pipe Industry (Malaysia) Sdn Bhd	(1)	124,964,153	-	-	124,964,153
TPC Commercial Pte. Ltd.	(2)	189,600,000	200,000,000	-	389,600,000
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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Interest of	Nominal value per share RM (unless indicated)	As at 1/7/2019	Acquired	(Sold/ exercised)	As at 30/6/2020
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****					
YBhg Tan Sri Quek Leng Chan in: (cont'd)					
GLL Chongqing 18 Steps Pte. Ltd.	(2)	149,597,307	49,060,065	-	198,657,372
Guoco Midtown Pte. Ltd.	(2)	184,000,000	-	-	184,000,000
Midtown Bay Pte. Ltd.	(2)	32,000,000	-	-	32,000,000
MTG Apartments Pte. Ltd	(2)	-	69,180,000 ⁽⁹⁾	-	69,180,000
MTG Retail Pte. Ltd	(2)	-	3,000,000 ⁽⁹⁾	-	3,000,000
GGL Asset Management (Singapore) Pte Ltd	(2)	1,700,000	-	(1,700,000) ⁽⁸⁾	-
Hillcrest Hives Limited	-	700	-	-	700
Beijing Ming Hua Property Co., Ltd	(3)	3,750,000	-	-	3,750,000
Shanghai Xinhaojia Property Development Co., Ltd	(3)	315,000,000	-	-	315,000,000

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Interest of	Nominal value per share RM (unless indicated)	As at 1/7/2019	Acquired	(Sold/ exercised)	As at 30/6/2020	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****	
YBhg Tan Sri Quek Leng Chan in: (cont'd)							
Shanghai Xinhaozhong Holding Co., Ltd	(3)	490,000	-	-	490,000		
JB Parade Sdn Bhd	(1)	28,000,000	-	-	28,000,000		
Lam Soon (Hong Kong) Limited	(1)	97,390,000 (7)	-	-	97,390,000 (7)		
Guangzhou Lam Soon Food Products Limited	(5)	140,008,659	-	-	140,008,659		
GuocoLand (Malaysia) Berhad	(4)	6,570,000	-	(6,570,000) (8)	-		
Guoman Hotel & Resort Holdings Sdn Bhd	(1)	455,574,796	-	-	455,574,796		
	(1)	277,000,000	-	-	277,000,000		

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

Interest of	Nominal value per share RM (unless indicated)	Directors' deemed interests		
		As at 1/7/2019	Acquired	(Sold/ exercised) As at 30/6/2020
YBhg Tan Sri Quek Leng Chan in: (cont'd)				
GLM Emerald Industrial Park (Jasin) Sdn Bhd	(1)	34,408,000	-	34,408,000
GL Limited	(1)	123,502,605 (7)	-	123,502,605 (7)
The Rank Group Plc	USD0.20	955,011,334 (6)	24,125,900	979,137,234 (6)
	GBP13 ^{8/9} p	930,000 ⁽⁶⁾	-	930,000 ⁽⁶⁾
		219,282,221	-	219,282,221

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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(1)(c) of the Companies Act 2016 in shares held by family member
- (7) Redeemable Preference Shares/ Cumulative Redeemable Preference Shares
- (8) Dissolved/ struck off during the financial year
- (9) Incorporated during the financial year
- (10) Mandatory conversion of 5-Year 5% Redeemable Convertible Unsecured Loan Stocks upon maturity

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefit (other than the benefits shown under Directors' Remuneration in Note 23(b) to the financial statement, 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 HLF Group was RM67,688 (2019: RM67,688) and the apportioned amount of the said premium paid by the Company was RM4,399.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

EXECUTIVE SHARE SCHEME

The Executive Share Scheme ("ESS") comprises of the Executive Share Option Scheme 2013/2023 ("ESOS") and the Executive Share Grant Scheme ("ESGS").

(I) ESOS

The ESOS which was approved by the shareholders of the HLFG on 30 October 2012, was established on 12 March 2013 and would be in force for a period of ten (10) years.

The ESOS would provide an opportunity for eligible executives who had contributed to the growth and development of the Company to participate in the equity of HLFG.

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

There were 13,200,000 options granted at an exercise price of RM16.88 on 2 April 2015.

Arising from the completion of the Rights Issue of HLFG on 7 December 2015, the exercise price for the share options granted on 2 April 2015 under the ESS 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 ESS.

The vesting period of 5.20 years from grant date, has expired on 14 June 2020.

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

There were 10,450,000 options granted at an exercise price of RM17.12 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.

(II) ESGS

The ESGS which was approved by the shareholders of HLFG on 29 October 2013, was established on 28 February 2014 and would end on 11 March 2023.

The ESGS would provide the Company with the flexibility to reward the eligible executives for their contribution with awards of HLFG's shares without any consideration payable by the eligible executives.

There are no share granted under the ESGS to date.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

EXECUTIVE SHARE SCHEME (CONT'D)

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 ("KPI") 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.

A trust has been set up for the ESS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase ordinary shares of HLFM from the open market for the purposes of this trust.

During the financial year, the Company had recognised share-based compensation income amounting to RM7,874,561 (share-based compensation expense for 2019: RM2,413,097).

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)

HOLDING COMPANIES

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

AUDITORS' REMUNERATION

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

AUDITORS

The auditors, 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 17 September 2020. Signed on behalf of the Board of Directors.



Tan Kong Khoon



Dato' Siow Kim Lun @ Siow Kim Lin

Petaling Jaya
17 September 2020

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (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 60 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 2020 and financial performance of the Company for the financial year ended 30 June 2020 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 17 September 2020.



Tan Kong Khoon
Director



Dato' Siow Kim Lun @ Siow Kim Lin
Director

Petaling Jaya
17 September 2020

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (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 60 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 17 September 2020)



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)
Registration No. 198201014849 (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 2020, 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 2020, and the statement of 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 60 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’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“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)
Registration No. 198201014849 (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 the 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.

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.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 198201014849 (94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

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.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 198201014849 (94613-X)

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, likely representing the PricewaterhouseCoopers firm.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

A stylized, handwritten signature in black ink, likely representing Wong Hui Chern.

WONG HUI CHERN
03252/05/2022 J
Chartered Accountant

Kuala Lumpur
17 September 2020

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2020 RM'000	2019 RM'000
Assets			
Property, plant and equipment	3	81,978	81,169
Intangible assets	4	7,312	6,597
Right-of-use assets	5	7,469	-
Investment properties	6	472,610	489,500
Financial assets	7	19,478,945	18,544,154
- Fair value through profit or loss financial assets	7(a)	18,376,620	17,220,310
- Amortised cost financial assets	7(b)	1,102,325	1,323,844
Derivative assets	8	10,114	13,744
Reinsurance assets	13	31,793	15,658
Insurance receivables	9	89,819	88,722
Other receivables	10	19,824	26,868
Cash and cash equivalents		1,757,917	1,171,884
Total assets		21,957,781	20,438,296
Equity, policyholders' fund and liabilities			
Share capital	11	200,000	200,000
Reserves	12	1,681,266	1,590,026
Total equity		1,881,266	1,790,026
Insurance contract liabilities	13	15,884,868	14,590,199
Deferred tax liabilities	14	338,679	318,877
Tax payables		19,077	11,808
Insurance payables	15	3,272,548	2,948,896
Other payables	16	227,173	251,268
Lease Liabilities	5	7,705	-
Derivative liabilities	8	21,782	19,496
Subordinated notes	17	304,683	507,726
Total policyholders' fund and liabilities		20,076,515	18,648,270
Total equity, policyholders' fund and liabilities		21,957,781	20,438,296

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

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Note	2020 RM'000	2019 RM'000
Gross earned premiums		2,831,395	2,800,531
Premiums ceded to reinsurers		(109,058)	(107,037)
Net earned premiums		<u>2,722,337</u>	<u>2,693,494</u>
Investment income	18	842,482	783,787
Realised losses	19	(9,386)	(837)
Fair value gains	20	144,334	797,608
Fees and commission income	21	14,187	14,602
Other operating income-net	22	25,930	19,123
Other revenue		<u>1,017,547</u>	<u>1,614,283</u>
Gross benefits and claims paid		(1,826,883)	(1,654,877)
Claims ceded to reinsurers		101,152	68,849
Gross change to contract liabilities		(1,226,805)	(1,708,984)
Change in contract liabilities ceded to reinsurers		(16,000)	(32,371)
Net benefits and claims		<u>(2,968,536)</u>	<u>(3,327,383)</u>
Fees and commission expense		(341,963)	(373,511)
Management expenses	23	(171,995)	(204,305)
Other expenses		<u>(513,958)</u>	<u>(577,816)</u>
Finance cost		(21,184)	(22,677)
Surplus before taxation		236,206	379,901
Tax expense attributable to participating fund and unitholders		(51,218)	(94,247)
Profit before taxation attributable to shareholders		<u>184,988</u>	<u>285,654</u>
Taxation		(94,966)	(158,851)
Tax expense attributable to participating fund and unitholders		51,218	94,247
Taxation attributable to shareholders	24	(43,748)	(64,604)
Net profit for the financial year		<u>141,240</u>	<u>221,050</u>
Earnings per share (sen)	26	<u>70.62</u>	<u>110.53</u>

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Issued and fully paid ordinary shares		Reserves		Total RM'000
	No. of shares '000	Share capital RM'000	Distributable		
			Fair value reserve RM'000	Retained earnings RM'000	
At 1 July 2018	200,000	200,000	26,454	491,362	1,660,374
- Effects on adoption of MFRS 9	-	-	(26,454)	10,841	8,602
As restated at 1 July 2018	200,000	200,000	-	515,577	1,668,976
Profit for the financial year	-	-	-	100,031	221,050
Dividend paid during the financial year	-	-	-	(100,000)	(100,000)
At 30 June 2019	200,000	200,000	-	515,608	1,790,026
At 1 July 2019	200,000	200,000	-	515,608	1,790,026
Profit for the financial year	-	-	-	39,123	141,240
Dividend paid during the financial year	-	-	-	(50,000)	(50,000)
At 30 June 2020	200,000	200,000	-	504,731	1,881,266

* 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

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Note	2020 RM'000	2019 RM'000
Operating activities			
Net profit for the financial year		141,240	221,050
Adjustments for:			
Investment income	18	(842,482)	(783,787)
Net realised losses	19	9,386	837
Fair value gains	20	(144,334)	(797,608)
Foreign exchange gains	22	(17,872)	(9,322)
Proceeds from sale of fair value through profit or loss financial assets	7	4,342,415	3,097,113
Maturity of fair value through profit or loss financial assets	7	474,016	1,431,305
Purchase of fair value through profit or loss financial assets	7	(5,785,761)	(5,961,967)
Decrease/(increase) in amortised cost financial assets	7	229,054	(477,314)
Proceeds on disposal of non-current asset held-for-sale		-	60
Purchase of derivatives	19	(9,456)	(837)
Interest on subordinated notes		18,368	22,500
Amortisation of incidental cost		2,816	177
Interest on lease liabilities	23	671	-
		<u>(1,723,179)</u>	<u>(3,478,843)</u>
Non-cash items:			
Depreciation of property, plant and equipment	3	5,023	5,345
Depreciation of right-of-use assets	5	2,192	-
Amortisation of intangible assets	4	2,884	3,678
Tax expense		94,966	158,851
		<u>105,065</u>	<u>167,874</u>
Changes in working capital:			
(Increase)/decrease in reinsurance assets		(16,135)	34,250
(Increase)/decrease in insurance receivables		(1,097)	19,445
Decrease in other receivables		7,984	46,435
Increase in insurance contract liabilities		1,294,669	1,696,107
Increase in insurance payables		323,652	318,060
Decrease in other payables		(24,095)	(8,516)
		<u>1,584,978</u>	<u>2,105,781</u>

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

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)**

		2020	2019
	Note	RM'000	RM'000
Cash generated from/(used in) operating activities		108,104	(984,138)
Dividend income received		192,557	144,124
Interest income received		640,441	626,003
Rental expenses paid		(970)	(263)
Income taxes paid		(67,885)	(79,143)
Net cash inflow/(outflow) from operating activities		<u>872,247</u>	<u>(293,417)</u>
Investing activities			
Proceeds from sale of property, plant and equipment	19	70	-
Purchase of property, plant and equipment	3	(8,604)	(5,622)
Purchase of intangible assets	4	(827)	(1,192)
Net cash outflow from investing activities		<u>(9,361)</u>	<u>(6,814)</u>
Financing activities			
Dividends paid		(50,000)	(100,000)
Payment of lease liabilities		(1,956)	-
Interest paid on lease liabilities		(671)	-
Repayment of subordinated notes		(500,000)	-
Issuance of subordinated notes		300,000	-
Interest paid on subordinated notes		(22,500)	(22,500)
Related expenses paid on subordinated notes		(1,727)	-
Net cash outflow from financing activities		<u>(276,854)</u>	<u>(122,500)</u>
Effect of exchange rate changes on cash and cash equivalents		1	-
Net increase/(decrease) in cash and cash equivalents		586,033	(422,731)
Cash and cash equivalents at beginning of the financial year		1,171,884	1,594,615
Cash and cash equivalents at end of the financial year		<u><u>1,757,917</u></u>	<u><u>1,171,884</u></u>
Cash and cash equivalents comprise:			
Cash and bank balances		27,870	41,119
Deposits with maturity of less than 3 months			
- Licensed financial institutions		1,730,047	1,130,765
		<u>1,757,917</u>	<u>1,171,884</u>

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

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)**

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

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

	Note	2020 RM'000	2019 RM'000
Subordinated note			
Balance at the beginning of the financial year		507,726	507,549
Cash changes:			
- Issuance		300,000	-
- Repayment		(500,000)	-
- Interest paid		(22,500)	(22,500)
- Related expenses		(1,727)	-
Non-cash changes:			
- Accrued interest		20,095	22,500
- Amortised incidental costs/ related expenses		1,089	177
Balance at the end of the financial year	17	<u>304,683</u>	<u>507,726</u>
Leases			
Balance at the beginning of the financial year		-	-
- Effect on adoption of MFRS 16		6,210	-
- As restated at 1 July 2019		6,210	-
Cash changes:			
- Repayments		(1,956)	-
- Interest paid		(671)	-
Non-cash changes:			
- Additions		3,451	-
- Accrued interest		671	-
Balance at the end of the financial year		<u>7,705</u>	<u>-</u>

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

HONG LEONG ASSURANCE BERHAD

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(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 17 September 2020.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) Basis of preparation

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

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

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

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (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(N).

(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 2019**

- MFRS 16 "Leases"
- Amendments to MFRS 9 "Prepayment Features with Negative Compensation"
- Amendments to MFRS 119 "Plan Amendment, Curtailment or Settlement"
- IC Interpretation 23 "Uncertainty over Income Tax Treatments"
- Annual Improvements to MFRSs 2015 – 2017 Cycle: MFRS 112 "Income Taxes"

The Company has adopted MFRS 16 for the first time in the 2020 financial statements, which resulted in changes in accounting policies. The Company has elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in MFRS 16 as summarised in Note 2(E).

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (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 2019 (cont'd)**

Under the simplified retrospective transition method, the 2019 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Company is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 July 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 'Leases' and IC Interpretation 4 'Determining whether an Arrangement Contains a Lease'.

The impact of adoption of MFRS 16 of the Company is summarised in Note 39.

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

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

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

(A) Basis of preparation (cont'd)

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

Financial year beginning on/after 1 July 2020

- Amendments to MFRS 101 and MFRS 108 clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

The definition of 'material' has been revised as "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments also:

- clarify that an entity assesses materiality in the context of the financial statements as a whole.
- explain the concept of obscuring information in the new definition. Information is obscured if it has the effect similar as omitting or misstating of that information. For example, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information.
- clarify the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendments shall be applied prospectively.

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

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

(A) Basis of preparation (cont'd)

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

Financial year beginning on/after 1 July 2020 (cont'd)

- The Conceptual Framework for Financial Reporting (Revised 2018)

The Framework was revised with the primary purpose to assist the International Accounting Standards Board ("IASB") to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS. The Framework is not an IFRS, and does not override any IFRSs.

Key changes to the Framework are as follows:

- Objective of general purpose financial reporting - clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship.
- Qualitative characteristics of useful financial information - reinstatement of the concepts of prudence when making judgement of uncertain conditions and 'substance over form' concept to ensure faithful representation of economic phenomenon.
- Clarification on reporting entity for financial reporting - introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.
- Elements of financial statements - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

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

(A) Basis of preparation (cont'd)

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

Financial year beginning on/after 1 July 2020 (cont'd)

- The Conceptual Framework for Financial Reporting (Revised 2018) (cont'd)

Key changes to the Framework are as follows: (cont'd)

- Recognition and derecognition - the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added.
- Measurement - explanation of factors to consider when selecting a measurement basis have been provided.
- Presentation and disclosure - clarification that statement of comprehensive income is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to income statements is required if this results in more relevant information or a more faithful representation of statements of income.

Amendments to References to the Conceptual Framework in MFRS Standards

The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards ("Amendments"), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies.

The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

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

(A) Basis of preparation (cont'd)

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

Financial year beginning on/after 1 July 2020 (cont'd)

- Amendments to MFRS 7, MFRS 9 and MFRS 139 - Interest Rate Benchmark Reform

"Highly probable" requirement

The relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Hence, where the hedged cash flows may change as a result of interbank offer rate ("IBOR") reform (for example, where the future interest payments on a hedged forecast debt issuance might be Sterling Overnight Index Average ("SONIA") + X% rather than LIBOR + Y%), this will not cause the "highly probable" test to be failed.

Prospective assessment

Under the amendments, an entity assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform. Accordingly, this will not cause the forward-looking prospective assessment to apply hedge accounting to fail.

MFRS 139(*) retrospective effectiveness test exception

IBOR reform might cause a hedge to fall outside the required 80-125% range. MFRS 139(*) has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this required 80-125% range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

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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 2020 (cont'd)

- Amendments to MFRS 7, MFRS 9 and MFRS 139 - Interest Rate Benchmark Reform (cont'd)

MFRS 139(*) retrospective effectiveness test exception (cont'd)

For hedge accounting to be applied, both MFRS 9 and MFRS 139(*) require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship.

Disclosures

The amendment requires disclosure of the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

An entity shall apply the amendments retrospectively. This retrospective application applies only to the following:

- hedging relationships that existed at the beginning of the reporting period in which an entity first applies those amendments or were designated thereafter; and
- the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

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NOTES TO THE FINANCIAL STATEMENTS

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

(A) Basis of preparation (cont'd)

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

Financial year beginning on/after 1 July 2020 (cont'd)

- Amendments to MFRS 7, MFRS 9 and MFRS 139 - Interest Rate Benchmark Reform (cont'd)

MFRS 139(*) retrospective effectiveness test exception (cont'd)

(*) When entity first applied MFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements of MFRS 139 instead of the requirements in Chapter 6 of MFRS 9. Accordingly, the hedging rules in MFRS 139 remain relevant.

Financial year beginning on/after 1 July 2022

- Amendments to MFRS 101 "Classification of liabilities as current or non-current" (effective 1 January 2022) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date.

The amendments shall be applied retrospectively.

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NOTES TO THE FINANCIAL STATEMENTS

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

(A) Basis of preparation (cont'd)

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

Financial year beginning on/after 1 July 2023

- 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.

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.

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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 2023 (cont'd)

- MFRS 17 "Insurance Contracts" replaces MFRS 4 "Insurance Contracts" (cont'd)

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 formed a Project Steering Committee to oversee the implementation of MFRS 17. The Project Working Committee is currently working closely with the external consultant in assessing the financial and other implications that may arise during the implementation of MFRS 17.

Except as mentioned above, the initial application of the other new standards, amendments to standards or interpretations issued by MASB effective for periods subsequent to 1 July 2020 are not expected to have any material financial impact to the current period and prior period financial statements of 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 comprehensive 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. Refer to Note 2(I)(ii) for accounting policy 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 comprehensive income.

Accounting policies applied from 1 July 2019

From 1 July 2019, leased assets presented under property, plant and equipment are right-of-use assets within the scope of MFRS 16. Refer to Note 2(E) for the accounting policy on right-of-use assets.

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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 comprehensive 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 comprehensive income in the financial year in which they arise.

Accounting policies applied from 1 July 2019

From 1 July 2019, leased assets presented under investment properties are right-of-use assets within the scope of MFRS 16. Refer to Note 2(E) for the accounting policy on right-of-use assets.

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NOTES TO THE FINANCIAL STATEMENTS

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

(E) Lease

Accounting policies applied until 30 June 2019

(i) Finance lease

Assets purchased under lease which in substance transfers the risks and benefits of ownership of the assets to the Company are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to statement of comprehensive income.

(ii) Operating lease

Leases of assets under which all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Accounting policies applied from 1 July 2019

From 1 July 2019, leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

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NOTES TO THE FINANCIAL STATEMENTS

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

(E) Lease (cont'd)

Accounting policies applied from 1 July 2019 (cont'd)

Lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Company reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company, and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy below on reassessment of lease liabilities.

ROU assets

ROU assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs; and
- decommissioning or restoration costs.

The Company applies the fair value model to ROU assets that meet the definition of investment property of MFRS 140 consistent with those investment property owned by the Company. Refer to Note 2(D) for accounting policy on investment property.

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

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NOTES TO THE FINANCIAL STATEMENTS

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

(E) Lease (cont'd)

Accounting policies applied from 1 July 2019 (cont'd)

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest/profit rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, an incremental borrowing rate is used in determining the discount rate which assumes the interest/profit rate that the Company would have to pay to borrow over a similar term, the funds necessary to obtain the asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented under management expense in the statement of comprehensive income.

Short term leases and leases of low value assets

The Company elects to apply MFRS 16 recognition exemption such as short-term leases and leases for which the underlying asset is of low value. Short-term leases are leases with a lease term of 12 months or less with no purchase option. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

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

(F) Financial instruments

Financial assets

(i) Classification

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 statement of comprehensive income.

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)

(F) Financial instruments (cont'd)

Financial assets (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.

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 investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in statement of comprehensive income as presented in net realised gain or loss on financial instruments. Impairment losses are presented as separate line item in the statement of comprehensive income.

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

Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income 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 are recognised in statement of comprehensive income and presented as net fair value gain or loss in the period which it arises.

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NOTES TO THE FINANCIAL STATEMENTS

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

(F) Financial instruments (cont'd)

Financial assets (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 statement of comprehensive income.

(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)

(F) Financial instruments (cont'd)

Financial liabilities

Financial liabilities are measured at amortised cost. Financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, financial liabilities are remeasured at amortised cost using the effective interest/profit rate. Financial liabilities are de-recognised when extinguished.

(G) 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)

(H) 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 comprehensive 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 comprehensive income immediately.

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

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

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NOTES TO THE FINANCIAL STATEMENTS

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

(H) Derivative financial instruments and hedging (cont'd)

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 comprehensive 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 comprehensive 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.

(I) Impairment

(i) Financial assets

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 financial assets that are subject to the ECL assessment are as follows:

- Cash and cash equivalents
- 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(I) Impairment (cont'd)

(i) Financial assets (cont'd)

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.

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.

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 asset or a company of financial assets has not increased significantly since initial recognition. For all other financial assets, a loss allowance at an amount equal to lifetime ECL is required. Note 32(a) sets out the measurement details of ECL.

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NOTES TO THE FINANCIAL STATEMENTS

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

(I) Impairment (cont'd)

(ii) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the statement of comprehensive income immediately. Any subsequent increase in recoverable amount of non-financial assets is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the non-financial 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 comprehensive income immediately.

(J) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances and deposits held at call with financial institutions with maturities of three months or less that are readily convertible to known amount of cash which are subject to an insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS

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

(K) Product classification

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

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

(K) Product classification (cont'd)

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

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

(L) 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 comprehensive 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)

(M) Life insurance underwriting results

The surplus transferable from the life fund to the statement of comprehensive 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 comprehensive 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 comprehensive 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)

(M) 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 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)

(M) 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(N) 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 5.1% (2019: 5.75%) and 4.6% (2019: 4.9%) 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)

(N) 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 comprehensive 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)

(O) 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.

(P) Taxation

Taxation on the statement of comprehensive 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)

(Q) 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 comprehensive 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 comprehensive income.

(R) 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.

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NOTES TO THE FINANCIAL STATEMENTS

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

(S) 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.

(T) 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) Defined contribution plans

A defined contribution plan is a pension plan under which the Company pay fixed contributions into a fund, either managed by a separate entity or internally on a mandatory, contractual or voluntary basis and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior financial periods.

The Company also contributes to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the statement of comprehensive income in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Share-based compensation

A trust has been set up for an executive share option scheme ("ESOS") by HLF, 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 HLF and the trustee, for the purchase of such number of HLF shares to satisfy the exercise of the share option by eligible executives of the Company for which BNM approval had been obtained.

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NOTES TO THE FINANCIAL STATEMENTS

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

(T) Employee benefits (cont'd)

(iii) Share-based compensation (cont'd)

The Company accounts for ESOS transactions as cash-settled as it will provide its employees with HLFM 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 comprehensive 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.

(U) 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.

(V) 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.

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

Cost	Land		Buildings		Furniture equipment and fittings RM'000	Renovation, computers RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000					
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	2,451	2,205	2,353	78,280	2,152	50,510	2,187	5,013	145,151
At 1 July 2019	2,451	2,205	2,353	78,280	2,152	50,510	2,187	5,013	145,151
Additions	-	-	-	-	3	671	-	7,930	8,604
Disposal	-	-	-	-	-	-	(361)	-	(361)
Reclassification (Note 4)	-	-	-	-	-	3,454	-	(6,226)	(2,772)
At 30 June 2020	2,451	2,205	2,353	78,280	2,155	54,635	1,826	6,717	150,622

* These are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land		Buildings		Furniture equipment and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Leasehold* and fittings RM'000					
Accumulated depreciation									
At 1 July 2018	-	673	138	15,274	1,743	39,940	869	-	58,637
Charge for the year (Note 23)	-	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
At 1 July 2019	-	704	185	16,840	1,827	43,173	1,253	-	63,982
Charge for the year (Note 23)	-	31	48	1,566	82	2,866	430	-	5,023
Disposal	-	-	-	-	-	-	(361)	-	(361)
At 30 June 2020	-	735	233	18,406	1,909	46,039	1,322	-	68,644

* These are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land		Buildings		Furniture equipment and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000					
Net carrying amount									
At 30 June 2019	2,451	1,501	2,168	61,440	325	7,337	934	5,013	81,169
At 30 June 2020	2,451	1,470	2,120	59,874	246	8,596	504	6,717	81,978

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

	Land		Buildings		Furniture equipment and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000	Freehold Leasehold* RM'000					
At cost									
At 30 June 2019	-	-	-	-	1,315	25,480	361	-	27,156
At 30 June 2020	-	-	-	-	1,370	37,621	320	-	39,311

* These are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

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

	2020	2019
	RM'000	RM'000
Cost		
At 1 July	78,659	74,925
Additions	827	1,192
Reclassification (Note 3)	2,772	2,542
At 30 June	<u>82,258</u>	<u>78,659</u>
Accumulated amortisation		
At 1 July	72,062	68,384
Charge for the year (Note 23)	2,884	3,678
At 30 June	<u>74,946</u>	<u>72,062</u>
Net carrying amount	<u>7,312</u>	<u>6,597</u>

5. LEASES**(a) Right-of-use assets**

	2020	2019
	RM'000	RM'000
At 1 July	-	-
- Effect on adoption of MFRS 16	6,210	-
- As restated at 1 July 2019	6,210	-
Additions	3,451	-
Charge for the year (Note 23)	(2,192)	-
At 30 June	<u>7,469</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS**5. LEASES (CONT'D)****(b) Lease liabilities**

	2020	2019
	RM'000	RM'000
Lease liabilities	7,705	-

Scheduled repayment of lease liabilities, showing contractual discounted cash flows:

	2020	2019
	RM'000	RM'000
Scheduled repayment of lease liabilities		
- Up to 1 year	1,704	-
- 1 to 5 years	5,158	-
- Over 5 years	843	-
	<u>7,705</u>	<u>-</u>

6. INVESTMENT PROPERTIES

	2020	2019
	RM'000	RM'000
At 1 July	489,500	494,164
Fair value losses (Note 20)	(16,890)	(4,664)
At 30 June	<u>472,610</u>	<u>489,500</u>

The analysis of investment properties is as follows:

Freehold land and building	470,000	487,000
Leasehold land and building *	2,610	2,500
	<u>472,610</u>	<u>489,500</u>

* Leasehold land are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

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NOTES TO THE FINANCIAL STATEMENTS**6 . INVESTMENT PROPERTIES (CONT'D)**

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 statement of comprehensive income.

Valuation techniques adopted

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

	2020	2019
	RM'000	RM'000
Level 2	2,610	2,500
Level 3	470,000	487,000
	<u>472,610</u>	<u>489,500</u>

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

	2020	2019
	RM'000	RM'000
At 1 July	487,000	492,094
Fair value losses	(17,000)	(5,094)
At 30 June	<u>470,000</u>	<u>487,000</u>

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NOTES TO THE FINANCIAL STATEMENTS**6. INVESTMENT PROPERTIES (CONT'D)**

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

Valuation Technique	Unobservable input	2020	2019
Comparison & Investment Method	Term Yield	6.00%	6.00%
	Revisionary Rate	6.50% - 6.75%	6.50% - 6.75%
	Average rental per square feet	RM2.24 - RM3.73	RM4.45 - RM6.04
	Discount Rate	6.50% - 6.75%	6.50% - 6.75%
	Estimated value per square feet	RM523.87 - RM798.00	RM595.57 - RM828.71

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

	2020	2019
	RM'000	RM'000
Rental income generated	9,454	10,255
Direct operating expenses	(10,188)	(10,721)
	<u>(734)</u>	<u>(466)</u>

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NOTES TO THE FINANCIAL STATEMENTS**7. FINANCIAL ASSETS**

	2020	2019
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	6,500,866	6,426,696
Corporate bonds	6,465,590	5,797,624
Equity securities	3,055,146	2,845,747
Unit trusts and real estate investment trusts	1,280,690	1,372,302
Policy loans and premium loans	509,817	544,108
Deposits with financial institutions	1,666,836	1,557,677
	<u>19,478,945</u>	<u>18,544,154</u>

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

	2020	2019
	RM'000	RM'000
FVTPL financial assets	18,376,620	17,220,310
AC financial assets	1,102,325	1,323,844
	<u>19,478,945</u>	<u>18,544,154</u>

The following investments mature within 12 months:

FVTPL financial assets	374,826	567,131
AC financial assets	1,021,473	1,273,273
	<u>1,396,299</u>	<u>1,840,404</u>

The following investments mature after 12 months:

FVTPL financial assets	18,001,794	16,653,179
AC financial assets	80,852	50,571
	<u>18,082,646</u>	<u>16,703,750</u>

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NOTES TO THE FINANCIAL STATEMENTS**7. FINANCIAL ASSETS (CONT'D)****(a) FVTPL financial assets**

	2020	2019
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	6,500,866	6,426,696
Corporate bonds		
- Quoted in Malaysia	-	1,178
- Unquoted in Malaysia	6,121,942	5,463,467
- Unquoted outside Malaysia	343,648	332,979
Equity securities		
- Quoted in Malaysia *	2,578,669	2,577,662
- Quoted outside Malaysia	454,162	248,401
- Unquoted in Malaysia	22,315	19,684
Unit trusts and real estate investment trusts		
- Quoted in Malaysia	159,378	159,649
- Unquoted in Malaysia	1,121,312	1,212,653
Deposits with financial institutions	1,074,328	777,941
	<u>18,376,620</u>	<u>17,220,310</u>

* Includes Hong Leong Financial Group Berhad ("HLFG") ordinary shares held by RHB Trustees Berhad (2019: MTrustee Berhad) for the ESOS scheme by HLFG as described in Note 2(T)(iii) to the financial statements.

(b) AC financial assets

	2020	2019
	RM'000	RM'000
At cost:		
Deposits with financial institutions	592,508	779,736
Policy loans	33,917	34,057
Premium loans	475,900	510,051
	<u>1,102,325</u>	<u>1,323,844</u>

NOTES TO THE FINANCIAL STATEMENTS

7. FINANCIAL ASSETS (CONT'D)

(c) Carrying value of financial instruments

	HTM RM'000	AFS RM'000	FVTPL RM'000	LAR RM'000	AC RM'000	Total RM'000
At 1 July 2018	611,075	10,904,597	3,401,161	846,533	-	15,763,366
- Effect on adoption of MFRS 9	(611,075)	(10,904,597)	11,540,908	(846,533)	846,533	25,236
- As restated at 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 20)	-	-	814,614	-	-	814,614
Movement in AC	-	-	-	-	477,314	477,314
Accretion of discount, net of amortisation of premium (Note 18)	-	-	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

NOTES TO THE FINANCIAL STATEMENTS

7. FINANCIAL ASSETS (CONT'D)

(c) Carrying value of financial instruments (cont'd)

	FVTPL RM'000	AC RM'000	Total RM'000
At 1 July 2019	17,220,310	1,323,844	18,544,154
Purchases	5,785,761	-	5,785,761
Maturities	(474,016)	-	(474,016)
Disposals	(4,342,415)	-	(4,342,415)
Fair value gains recorded in income statement (Note 20)	167,138	-	167,138
Movement in AC	-	(229,054)	(229,054)
Amortisation of premium, net of accretion of discount (Note 18)	(3,108)	-	(3,108)
Movement in accrued interest	5,079	7,535	12,614
Currency translation differences	17,871	-	17,871
At 30 June 2020	<u>18,376,620</u>	<u>1,102,325</u>	<u>19,478,945</u>

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NOTES TO THE FINANCIAL STATEMENTS**8. DERIVATIVE FINANCIAL INSTRUMENTS**

	Notional Principal RM'000	Fair value RM'000
2020		
Derivatives designated as fair value hedge:		
Derivative assets		
- Foreign currency forwards	321,491	3,015
- Cross-currency interest rate swaps	170,192	7,099
	<u>491,683</u>	<u>10,114</u>
Derivative liabilities		
- Foreign currency forwards	130,778	625
- Cross-currency interest rate swaps	48,503	21,157
	<u>179,281</u>	<u>21,782</u>
2019		
Derivatives designated as fair value hedge:		
Derivative assets		
- Foreign currency forwards	212,095	853
- Cross-currency interest rate swaps	170,192	12,891
	<u>382,287</u>	<u>13,744</u>
Derivative liabilities		
- Foreign currency forwards	110,063	197
- Cross-currency interest rate swaps	48,502	19,299
	<u>158,565</u>	<u>19,496</u>
	2020	2019
	RM'000	RM'000
Derivative assets maturing within 12 months	3,015	854
Derivative assets maturing after 12 months	7,099	12,890
	<u>10,114</u>	<u>13,744</u>
Derivative liabilities maturing within 12 months	624	197
Derivative liabilities maturing after 12 months	21,158	19,299
	<u>21,782</u>	<u>19,496</u>

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NOTES TO THE FINANCIAL STATEMENTS**8 . 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 gains and losses arising from fair value hedges during the financial year as follows:

	2020	2019
	RM'000	RM'000
Losses on hedging instruments	(15,370)	(13,179)
Gains on hedged items attributable to the hedged risks	17,871	9,322
	<u>2,501</u>	<u>(3,857)</u>

9 . INSURANCE RECEIVABLES

	2020	2019
	RM'000	RM'000
Due premium including agents/brokers and reinsurers balances	92,123	94,576
Allowance for impairment (Note 32(a))	(2,304)	(5,854)
	<u>89,819</u>	<u>88,722</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.

	2020	2019
	RM'000	RM'000
Gross amounts of recognised financial assets	132,535	147,367
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(40,412)	(52,791)
	<u>92,123</u>	<u>94,576</u>
Allowance for impairment (Note 32(a))	(2,304)	(5,854)
Net amounts of financial assets presented in the statement of financial position	<u>89,819</u>	<u>88,722</u>

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NOTES TO THE FINANCIAL STATEMENTS**10 . OTHER RECEIVABLES**

	2020	2019
	RM'000	RM'000
Investment income receivables	5,117	4,169
Investment debtors	1,980	4,541
Other receivables	12,941	18,202
	<u>20,038</u>	<u>26,912</u>
Allowance for impairment (Note 32(a))	(214)	(44)
Total other receivables	<u><u>19,824</u></u>	<u><u>26,868</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.

11 . SHARE CAPITAL

	2020		2019	
	No of shares '000	RM'000	No of shares '000	RM'000
Ordinary shares				
Issued and fully paid up:				
At 1 July/30 June	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

12 . RESERVES

The Company may distribute single tier exempt dividend to its shareholders out of its distributable retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend.

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

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

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

	Gross		Re-insurance		Net	
	2020	2019	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	159,466	91,602	(54,832)	(22,697)	104,634	68,905
Actuarial liabilities (Note 31)	12,088,368	11,189,195	23,039	7,039	12,111,407	11,196,234
Unallocated surplus	508,509	736,764	-	-	508,509	736,764
Net asset value attributable to unitholders (Note 34)	3,128,525	2,572,638	-	-	3,128,525	2,572,638
Insurance contract liabilities	15,884,868	14,590,199	(31,793)	(15,658)	15,853,075	14,574,541

NOTES TO THE FINANCIAL STATEMENTS

13. INSURANCE CONTRACT LIABILITIES (CONT'D)

	Gross			Reinsurance			Net
	With	Without		With	Without		
	DPF RM'000	DPF RM'000	Total RM'000	DPF RM'000	DPF RM'000	Total RM'000	
At 1 July 2018	9,668,143	3,219,876	12,888,019	(1,278)	(48,630)	(49,908)	12,838,111
- Effect on adoption of MFRS 9	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
Other Assumptions	(41,757)	1,098	(40,659)	-	-	-	(40,659)
Change in economic assumptions							
MGS	-	95,592	95,592	-	266	266	95,858
Discount Rate	59,601	-	59,601	-	-	-	59,601
Other Assumptions	-	(151)	(151)	-	-	-	(151)
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

NOTES TO THE FINANCIAL STATEMENTS

13. INSURANCE CONTRACT LIABILITIES (CONT'D)

	Gross		Reinsurance		Net
	With	Without	With	Without	
	DPF RM'000	DPF RM'000	DPF RM'000	DPF RM'000	
At 1 July 2019	10,563,212	4,026,987	14,590,199	(883)	14,574,541
Change in non-economic assumptions and valuation methodology:					
Model and Methodology	83,468	(392)	83,076	-	83,258
Mortality & TPD Assumption	(1,217)	(5,485)	(6,702)	-	(3,642)
Critical Illnesses Assumption	1,409	(2,394)	(985)	(2)	(987)
HSI, HIB and PA Assumptions	-	879	879	-	879
Expense Assumption	16,248	237	16,485	-	16,485
Lapse Assumption	8,169	(167)	8,002	(1,114)	6,888
Other Assumptions	2,383	30,378	32,761	-	32,761
Change in economic assumptions					
MGS	-	117,409	117,409	-	118,414
Discount Rate	169,136	(71)	169,065	-	169,065
Other Assumptions	-	(62)	(62)	-	(62)
Projected change for inforce policies at 30 June 2019	100,088	161,685	261,773	(447)	261,326
Experience variance	99,675	22,644	122,319	440	122,759
IBNR	(391)	1,480	1,089	-	1,089
Others - EMGS Inwards Reinsurance	-	1,159	1,159	-	1,159
New business	6,585	92,326	98,911	-	101,787
Change in unprocessed unit reserves	-	(6,006)	(6,006)	-	(6,006)
Change in provision for outstanding claims	18,862	49,002	67,864	(180)	35,729
Change in net asset value attributable to unitholders	-	555,887	555,887	-	555,887
Change in unallocated surplus	(228,255)	-	(228,255)	-	(228,255)
At 30 June 2020	10,839,372	5,045,496	15,884,868	(1,063)	15,853,075

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NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAXATION**

The movements in deferred tax assets and liabilities during the financial year are as follows:

	2020	2019
	RM'000	RM'000
At 1 July	(318,877)	(225,707)
- Effects on adoption of MFRS 9	-	(3,788)
As restated at 1 July	(318,877)	(229,495)
Recognised in:		
Income statement (Note 24)	(19,802)	(89,382)
At 30 June	<u>(338,679)</u>	<u>(318,877)</u>
Current	920	456
Non-current	(339,599)	(319,333)
	<u>(338,679)</u>	<u>(318,877)</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. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2020	2019
	RM'000	RM'000
Deferred tax liabilities	(351,098)	(319,260)
Deferred tax assets	12,419	383
	<u>(338,679)</u>	<u>(318,877)</u>

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

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

Deferred tax liabilities

	Unallocated surplus RM'000	Investment properties RM'000	Financial assets RM'000	Total RM'000
At 1 July 2018	(206,904)	(7,256)	(15,571)	(229,731)
- Effects on adoption of MFRS 9	(2,379)	-	(1,409)	(3,788)
- As restated 1 July 2018	(209,283)	(7,256)	(16,980)	(233,519)
Recognised in: Income statement	(26,565)	1,046	(60,222)	(85,741)
At 30 June 2019	<u>(235,848)</u>	<u>(6,210)</u>	<u>(77,202)</u>	<u>(319,260)</u>
At 1 July 2019	(235,848)	(6,210)	(77,202)	(319,260)
Recognised in: Income statement	(22,416)	151	(9,573)	(31,838)
At 30 June 2020	<u>(258,264)</u>	<u>(6,059)</u>	<u>(86,775)</u>	<u>(351,098)</u>

Deferred tax assets

	Investment properties RM'000	Financial assets RM'000	Total RM'000
At 1 July 2018	-	4,024	4,024
Recognised in: Income statement	383	(4,024)	(3,641)
At 30 June 2019	<u>383</u>	<u>-</u>	<u>383</u>
At 1 July 2019	383	-	383
Recognised in: Income statement	3,600	8,436	12,036
At 30 June 2020	<u>3,983</u>	<u>8,436</u>	<u>12,419</u>

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

	2020	2019
	RM'000	RM'000
Amount due to reinsurers and cedants	22,491	24,198
Amount due to agents	65,144	51,529
Amount due to insured	3,184,913	2,873,169
	<u>3,272,548</u>	<u>2,948,896</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.

	2020	2019
	RM'000	RM'000
Gross amounts of recognised financial liabilities	3,312,960	3,001,687
Less: Gross amounts of recognised financial assets set off in the statement of financial position	<u>(40,412)</u>	<u>(52,791)</u>
Net amounts of financial liabilities presented in the statement of financial position	<u>3,272,548</u>	<u>2,948,896</u>

16 . OTHER PAYABLES

	2020	2019
	RM'000	RM'000
Accruals*	140,115	213,427
Investment creditors	45,457	10,509
Rental deposits	7,025	7,415
Other payables	34,576	19,917
	<u>227,173</u>	<u>251,268</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 the ESOS Scheme by HLFM of RM3,031,230 as at 30 June 2020 (2019: RM10,905,791).

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NOTES TO THE FINANCIAL STATEMENTS**17 . SUBORDINATED NOTES**

	2020	2019
	RM'000	RM'000
RM500.0 million Tier 2 subordinated notes, at par (Note 17(a))	-	500,000
Add: interest payable	-	8,815
Less: unamortised incidental costs	-	(1,089)
	<u>-</u>	<u>507,726</u>
RM300.0 million Tier 2 subordinated notes, at par (Note17(b))	300,000	-
Add: interest payable	4,683	-
	<u>304,683</u>	<u>-</u>
Total subordinated notes	<u>304,683</u>	<u>507,726</u>
Payable within 12 months	4,683	8,815
Payable after 12 months	300,000	498,911
	<u>304,683</u>	<u>507,726</u>

(a) RM500.0 million Tier 2 subordinated notes

On 19 September 2012, HLA created an issuance of up to RM500.0 million in nominal value of subordinated notes under a proposed Subordinated Notes Programme to raise funds for general working capital and/or business operations purpose.

On 20 March 2013, the Securities Commission approved the application subject to certain operational terms and conditions being fulfilled.

On 7 February 2013, the Company completed its RM500.0 million subordinated notes issuance. The subordinated notes were issued for a period of 12 years on a 12 non-callable 7 basis with a coupon rate of 4.50% per annum.

The subordinated notes are unsecured liabilities and classified as Tier 2 capital under Risk-Based Capital Framework for Insurers.

On 7 February 2020, the Company had fully redeemed the RM500.0 million nominal value of this subordinated notes.

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17 . SUBORDINATED NOTES (CONT'D)

(b) RM300.0 million Tier 2 subordinated notes

On 13 September 2019, the Company created an issuance of up to RM300.0 million in nominal value of subordinated notes/subordinated sukuk under a proposed Subordinated Notes Programme or Subordinated Sukuk Programme with combine limit up to RM2.0 billion in nominal value to raise funds for general working capital and/or business operations purpose.

On 27 September 2019, the Securities Commission approved the application subject to certain operational terms and conditions being fulfilled.

On 3 February 2020, HLA completed its RM300.0 million subordinated notes issuance. The subordinated notes were issued for a period of 10 years on a 10 non-callable 5 basis with a coupon rate of 3.85% per annum.

The subordinated notes are unsecured liabilities and classified as Tier 2 capital under Risk-Based Capital Framework for Insurers.

(c) Valuation techniques adopted

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

- (i) There are no subordinated notes categorise under Level 1.
- (ii) Subordinated notes are included in Level 2 with carrying amount of RM298,258,550 (2019: RM491,975,654). The fair value of subordinated notes are estimated based on discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.
- (iii) There are no subordinated notes categorise under Level 3.

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NOTES TO THE FINANCIAL STATEMENTS**18 . INVESTMENT INCOME**

	2020	2019
	RM'000	RM'000
Interest income		
FVTPL financial assets	571,076	572,235
Deposits with financial institution	56,865	48,823
Policy loans and premium loans	25,114	24,808
Gross dividends		
FVTPL financial assets	193,269	137,494
Net expenses in investment properties	(734)	(466)
Accretion of discount, net of amortisation of premium		
FVTPL financial assets (Note 7(c))	(3,108)	893
	<u>842,482</u>	<u>783,787</u>

19 . REALISED GAINS AND LOSSES

	2020	2019
	RM'000	RM'000
Property, plant and equipment		
Realised gains	70	-
Derivatives		
Realised losses	(9,456)	(837)
Net realised losses	<u>(9,386)</u>	<u>(837)</u>

20 . FAIR VALUE GAINS AND LOSSES

	2020	2019
	RM'000	RM'000
Fair value gains/(losses):		
Investment properties (Note 6)	(16,890)	(4,664)
Derivatives	(5,914)	(12,342)
FVTPL financial assets (Note 7(c))	167,138	814,614
	<u>144,334</u>	<u>797,608</u>

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NOTES TO THE FINANCIAL STATEMENTS**21 . FEES AND COMMISSION INCOME**

	2020	2019
	RM'000	RM'000
Policyholder administration and investment management service	7,707	12,986
Reinsurance commission income	6,414	1,589
Surrender charges and other contract fees	66	27
	<u>14,187</u>	<u>14,602</u>

22 . OTHER OPERATING INCOME/(EXPENSES)-NET

	2020	2019
	RM'000	RM'000
Foreign exchange		
- Realised (losses)/gains	(292)	982
- Unrealised gains	17,872	9,322
Other operating income	8,350	8,819
	<u>25,930</u>	<u>19,123</u>

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

	2020	2019
	RM'000	RM'000
Employee benefits expense (Note 23(a))	87,578	104,384
GMD/CEO and Directors' remuneration (Note 23(b))	5,074	4,888
Auditors' remuneration* :		
Audit related services	379	385
Non-audit related services	29	29
Depreciation of property, plant and equipment (Note 3)	5,023	5,345
Amortisation of intangible assets (Note 4)	2,884	3,678
Depreciation of right-of-use assets (Note 5)	2,192	-
Interest expense on lease liabilities	671	-
Reversal of impairment on receivables	(3,380)	(1,384)
Rental of offices	-	6,668
Entertainment and travelling	1,228	1,420
EDP expenses	12,481	10,812
Other expenses	57,836	68,080
	<u>171,995</u>	<u>204,305</u>

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

(a) Employee benefits expense

	2020	2019
	RM'000	RM'000
Wages, salaries and bonuses	79,196	84,905
Defined contribution retirement plan	12,226	13,244
Other employee benefits	(3,844)	6,235
	<u>87,578</u>	<u>104,384</u>

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

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

	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits in-kind RM'000	Total RM'000
2020				
GMD/CEO:				
Loh Guat Lan:	3,749	-	664	4,413
Non-executive Directors:				
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	16	150	-	166
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	16	155	-	171
YBhg Datin Ngiam Pick Ngoh	16	145	-	161
Shalet Marian	13	150	-	163
	61 *	600	-	661
Total Directors' remuneration	3,810	600	664	5,074
2019				
GMD/CEO:				
Loh Guat Lan:	3,604	-	640	4,244
Non-executive Directors:				
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
	44 *	600	-	644
Total Directors' remuneration	3,648	600	640	4,888

* Directors' meeting allowance

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NOTES TO THE FINANCIAL STATEMENTS**23 . MANAGEMENT EXPENSES (CONT'D)****(b) GMD/CEO and Directors' remuneration (cont'd)**

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 HLF Group was RM67,688 (2019: RM67,688) and the apportioned amount of the said premium paid by the Company was RM4,399.

24 . TAXATION

	Attributable to participating fund and unitholders RM'000	Attributable to shareholders' fund RM'000	Total RM'000
2020			
Current income tax:			
Current financial year	49,041	23,741	72,782
Under provision in prior years	842	1,540	2,382
	49,883	25,281	75,164
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	1,335	18,467	19,802
	51,218	43,748	94,966
2019			
Current income tax:			
Current financial year	41,041	27,415	68,456
(Over)/under provision in prior years	(1)	1,014	1,013
	41,040	28,429	69,469
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	53,207	36,175	89,382
	94,247	64,604	158,851

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24 . TAXATION (CONT'D)

The income tax for the Shareholders' fund is calculated based on the tax rate of 24% (2019: 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% (2019: 8%) of the assessable investment income net of allowable deductions for the financial year. The taxes of the respective funds are disclosed in Note 34 to the financial statements.

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

A reconciliation of income tax expense applicable to 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:

	2020	2019
	RM'000	RM'000
Profit before taxation attributable to shareholders	184,988	285,654
Taxation at Malaysian statutory tax rate of 24%	44,397	68,557
Tax effects in respect of:		
Income not subject to tax	(17,724)	(57,472)
Expenses not deductible for tax purpose	12,537	25,946
Effect of difference in tax rate	2,998	26,559
Under provision in prior years	1,540	1,014
Tax expense for the financial year	43,748	64,604

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25 . DIVIDENDS

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

	2020 RM'000
In respect of the financial year ended 30 June 2019:	
- Single-tier dividend of 25.0 sen per share	50,000
	<u>50,000</u>
	2019 RM'000
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>

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

26 . EARNINGS PER SHARE

The basic earnings per share are calculated based on the profit for the financial year after taxation as stated below divided by the weighted average number of 200,000,000 (2019: 200,000,000) ordinary shares in issue during the financial year.

	2020 RM'000	2019 RM'000
Net profit for the financial year	141,240	221,050
	<u>141,240</u>	<u>221,050</u>

27 . CAPITAL COMMITMENTS

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

	2020 RM'000	2019 RM'000
Authorised and contracted for:		
Property and equipment	1,266	66
Intangible assets	1,990	1,960
	<u>3,256</u>	<u>2,026</u>

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NOTES TO THE FINANCIAL STATEMENTS

28 . RELATED PARTY DISCLOSURES

(a) Related parties and relationships

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

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

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(a) Related parties and relationships (cont'd)**

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

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

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

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

	Immediate holding company RM'000	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties RM'000
2020				
Assets				
Financial assets	-	-	109,016	618,975
Receivables	26	96	1,784	1,365
Short term placements and fixed deposits	-	-	-	30
Cash and cash equivalents	-	-	-	964,079
	<u>26</u>	<u>96</u>	<u>110,800</u>	<u>1,584,449</u>
Liabilities				
Payables	-	605	5,123	683
2019				
Assets				
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>
Liabilities				
Payables	-	2	571	6,370

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NOTES TO THE FINANCIAL STATEMENTS**28 . 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
2020				
Income				
Gross premium received/ receivable	-	62	87	49,601
Management and professional fee income	-	-	-	2,377
Rental income	-	1,655	-	6,853
Service support fees	284	-	-	4,414
Interest income	-	-	2,530	12,301
Dividend income	-	-	-	75,537
Rebates	-	-	-	6,219
	<u>284</u>	<u>1,717</u>	<u>2,617</u>	<u>157,302</u>
Expenditure				
Gross premium paid	-	-	-	(243)
Commission paid/payable	-	-	-	(17,944)
Management and professional fee paid/payable	-	(480)	(1,598)	(1,026)
Authorised depository fee	-	-	-	(57)
Brokerage fee	-	-	-	(1,255)
Credit card merchant fees	-	-	-	(14,415)
Security guard services	-	-	-	(889)
Service support fees paid	-	-	-	(3,033)
Rental expenses	-	-	(230)	(22)
Logo fees	-	-	-	(13)
Bank charges	-	-	-	(384)
Custody Fee	-	-	-	(57)
Central depository fee	-	-	-	(5)
Building management fees	-	-	-	(897)
	<u>-</u>	<u>(480)</u>	<u>(1,828)</u>	<u>(40,240)</u>

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NOTES TO THE FINANCIAL STATEMENTS**28 . 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
2019				
Income				
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>
Expenditure				
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**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

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.

(c) Compensation of key management personnel

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

	2020	2019
	RM'000	RM'000
Wages, salaries and bonuses	14,250	14,862
Defined contribution retirement plan	1,956	2,196
Other employee benefits	911	864
Directors' fees	600	600
	<u>17,717</u>	<u>18,522</u>
	Units	Units
	'000	'000
Share options exercised during the year	<u>2</u>	<u>1,434</u>
	RM'000	RM'000
Included in the total key management personnel are: GMD/CEO and Directors' remuneration (Note 23(b))	<u>5,074</u>	<u>4,888</u>

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NOTES TO THE FINANCIAL STATEMENTS

29 . RISK MANAGEMENT FRAMEWORK

The Company's risk management framework is based on the Enterprise Risk Management ("ERM") approach. The ERM Framework provides a systematic approach to identify, evaluate, monitor and report significant risks. Significant risks include market, interest rate, credit, insurance, operational, compliance, IT and strategic 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

29 . 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.

30 . REGULATORY CAPITAL REQUIREMENTS

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

	2020	2019
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up) (Note 11)	200,000	200,000
- Reserves	3,852,275	4,149,605
Eligible Tier 2 capital		
- Eligible reserves	300,000	500,000
Deductions	(12,672)	(6,597)
	<u>4,339,603</u>	<u>4,843,008</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 . INSURANCE RISK

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

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

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

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

	Gross		Reinsurance		Net of reinsurance		Total RM'000
	With DPF RM'000	Without DPF RM'000	With DPF RM'000	Without DPF RM'000	With DPF RM'000	Without DPF RM'000	
2020							
Whole Life	2,399,351	443,375	-	11,503	2,399,351	454,878	2,854,229
Endowment Term	3,852,656	357,007	-	(950)	3,852,656	356,057	4,208,713
Accident and health Annuity	846,833	446,616	-	5,818	846,833	452,434	1,299,267
Others	7,704	15,045	-	6,668	7,704	21,713	29,417
	520,655	8,544	-	-	520,655	8,544	529,199
	2,656,444	534,138	-	-	2,656,444	534,138	3,190,582
	10,283,643	1,804,725	-	23,039	10,283,643	1,827,764	12,111,407

NOTES TO THE FINANCIAL STATEMENTS

31 . INSURANCE RISK (CONT'D)

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

31 . INSURANCE RISK (CONT'D)

Key assumptions

The valuation of life insurance liabilities is based on actuarial valuation method and assumptions pursuant to the requirements stated in document "Risk-Based Capital Framework for Insurers" issued by Bank Negara Malaysia in April 2007 and revised in December 2018.

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

- Mortality rates

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

- Expense assumption

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

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

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

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 analysis produced is based on parameters set out as follows:

	Change in assumption	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
	%				
2020					
Mortality and morbidity	+ 10	146,753	120,830	(108,945)	(89,335)
Mortality and morbidity	- 10	(138,835)	(114,960)	103,438	84,819
Discount rate	- 0.5	308,293	308,391	(118,023)	(96,779)
Expenses	+ 10	47,316	46,496	(30,606)	(25,097)
Lapse and surrender	+ 10	(40,489)	(43,228)	5,048	4,140
Lapse and surrender	- 10	43,899	44,965	(4,571)	(3,748)
2019					
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

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

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS

The 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**32 . 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.

	Insurance and Shareholders' Funds RM'000	Investment- Linked Funds RM'000	Total RM'000
2020			
HFT financial assets	15,482,406	2,894,214	18,376,620
AC financial assets	1,073,045	29,280	1,102,325
Derivative assets	9,120	994	10,114
Reinsurance assets	31,793	-	31,793
Insurance receivables	89,819	-	89,819
Other receivables *	14,228	2,150	16,378
Cash and balances	1,528,717	229,200	1,757,917
	<u>18,229,128</u>	<u>3,155,838</u>	<u>21,384,966</u>
2019			
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>

* Other receivables as at 30 June 2020 and 30 June 2019 excluded sundry deposits, GST recoverable & prepayments of 2020: RM3,446,318 (2019: RM5,371,485).

NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(a) Credit risk (cont'd)

Credit exposure by credit rating

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

	Neither past-due nor impaired			Not subject to credit risk RM'000	Past-due but not impaired RM'000	Total RM'000
	AAA to AA RM'000	Investment grade A RM'000	BBB to BB RM'000			
2020						
FVTPL financial assets	6,961,936	411,218	80,583	4,335,836	-	18,376,620
AC financial assets	573,022	-	-	529,303	-	1,102,325
Derivatives	10,114	-	-	-	-	10,114
Reinsurance assets	4,454	2,387	-	24,952	-	31,793
Insurance receivables	2	-	-	89,817	-	89,819
Other receivables *	-	-	-	16,378	-	16,378
Cash and cash equivalents	1,757,799	-	-	118	-	1,757,917
	9,307,327	413,605	80,583	4,335,836	-	21,384,966

* Other receivables as at 30 June 2020 excluded sundry deposits, GST recoverable & prepayments of RM3,446,318.

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

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

	Neither past-due nor impaired			Not subject to credit risk RM'000	Past-due but not impaired RM'000	Total RM'000
	AAA to AA RM'000	Investment grade A RM'000	BBB RM'000			
2019						
FVTPL financial assets	5,812,472	485,261	83,490	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
	<u>7,763,250</u>	<u>486,010</u>	<u>83,490</u>	<u>4,218,049</u>	<u>-</u>	<u>19,855,659</u>

* Other receivables as at 30 June 2019 excluded sundry deposits, GST recoverable & prepayments of RM5,371,485.

NOTES TO THE FINANCIAL STATEMENTS

32 . 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:

	Insurance receivables RM'000	Other receivables RM'000	Total RM'000
At 1 July 2018	509	-	509
- Effects on adoption of MFRS 9	6,773	-	6,773
	7,282	-	7,282
As restated at 1 July 2019 (Write back)/charge for the financial year	(1,428)	44	(1,384)
At 30 June 2019	5,854	44	5,898
	5,854	44	5,898
At 1 July 2019 (Write back)/charge for the financial year	(3,550)	170	(3,380)
At 30 June 2020	2,304	214	2,518

NOTES TO THE FINANCIAL STATEMENTS

32 . 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.

NOTES TO THE FINANCIAL STATEMENTS

32 . 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:

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2020						
FVTPL financial assets	18,376,620	374,826	3,943,781	9,722,177	4,335,836	18,376,620
AC financial assets	1,102,325	912,532	189,793	-	-	1,102,325
Derivative assets	10,114	3,015	7,099	-	-	10,114
Reinsurance assets	31,793	31,793	-	-	-	31,793
Insurance receivables	89,819	89,819	-	-	-	89,819
Other receivables *	16,378	16,378	-	-	-	16,378
Cash and cash equivalents	1,757,917	1,757,917	-	-	-	1,757,917
Total financial assets	21,384,966	3,186,280	4,140,673	9,722,177	4,335,836	21,384,966

* Other receivables as at 30 June 2020 excluded sundry deposits, GST recoverable & prepayments of RM3,446,318.

NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(b) Liquidity risk (cont'd)

Maturity profile of financial assets (cont'd)

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

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2019						
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
Total financial assets	19,855,659	3,139,020	2,864,531	9,634,059	4,218,049	19,855,659

* Other receivables as at 30 June 2019 excluded sundry deposits, GST recoverable & prepayments of RM5,371,485.

NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(b) Liquidity risk (cont'd)

Maturity profile of financial liabilities

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

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2020					
Insurance contract liabilities:					
-With DPF	10,839,374	1,248,804	3,408,711	13,999,634	18,657,149
-Without DPF	5,045,494	3,424,482	609,899	2,966,783	7,001,164
Insurance payables	3,272,548	3,272,548	-	-	3,272,548
Other payables	227,173	227,173	-	-	227,173
Lease liabilities	7,705	2,380	6,511	912	9,803
Derivative liabilities	21,782	624	21,158	-	21,782
Subordinated notes	304,683	5,822	46,232	357,687	409,741
Total financial liabilities	19,718,759	8,181,833	4,092,511	17,325,016	29,599,360

NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(b) Liquidity risk (cont'd)

Maturity profile of financial liabilities (cont'd)

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

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2019					
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	18,317,585	7,129,767	3,766,981	18,919,369	29,816,117

* Excluding AFS reserve.

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32 . FINANCIAL RISKS (CONT'D)

(b) Liquidity risk (cont'd)

Maturity profile of financial liabilities (cont'd)

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

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

(c) Market risk

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

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

(i) Currency risk

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

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

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

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

	Financial assets RM'000
2020	
Singaporean dollar	56,196
US dollar	301,221
Australian dollar	5,281
Euro	1
Hong Kong dollar	435,826
Great Britain pound	1
Total	<u>798,526</u>
2019	
Singaporean dollar	74,589
US dollar	285,899
Australian dollar	23,922
Euro	1
Hong Kong dollar	198,970
Total	<u>583,381</u>

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

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

The following table demonstrates the sensitivity to a reasonably possible change in currency rates for all currencies other than the functional currency stated above, with all other variables held constant showing the impact on the Company's profit after tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		Impact on profit after tax	Impact on equity *
		RM'000	RM'000
2020			
Change in currency rates:			
Singaporean dollar	+ 5%	(285)	(285)
US dollar	+ 5%	(601)	(601)
Hong Kong dollar	+ 5%	(493)	(493)
Singaporean dollar	- 5%	285	285
US dollar	- 5%	601	601
Hong Kong dollar	- 5%	493	493
2019			
Change in currency rates:			
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

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

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(ii) Interest rate risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on the Company's profit 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*	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Change in interest rate:				
+ 100 basis point	(154,919)	(133,776)	(154,919)	(133,776)
- 100 basis point	176,637	152,375	176,637	152,375

* 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

32 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(iii) Price risk

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

The Company has acknowledged the inherent risk of investing in equities. Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls. In addition, the Investment Committee at its 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*	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Change in equity market price:				
+ 20%	48,070	39,430	48,070	39,430
- 20%	(48,070)	(39,430)	(48,070)	(39,430)

* 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 2020.

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

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(d) Operational risk

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

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33 . FAIR VALUE HIERARCHY

Recurring fair values measurements

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS**33 . FAIR VALUE HIERARCHY (CONT'D)****(a) Fair value of financial instruments carried at fair value**

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
2020				
<u>Recurring fair value measurements</u>				
Financial assets				
FVTPL financial assets	4,313,521	14,040,784	22,315	18,376,620
Derivative assets	-	10,114	-	10,114
Total assets	<u>4,313,521</u>	<u>14,050,898</u>	<u>22,315</u>	<u>18,386,734</u>
Financial liabilities				
Derivative liabilities	-	21,782	-	21,782
Total liabilities	<u>-</u>	<u>21,782</u>	<u>-</u>	<u>21,782</u>
2019				
<u>Recurring fair value measurements</u>				
Financial assets				
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>
Financial liabilities				
Derivative liabilities	-	19,496	-	19,496
Total liabilities	<u>-</u>	<u>19,496</u>	<u>-</u>	<u>19,496</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**33 . 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:

	FVTPL financial assets RM'000
At 1 July 2018	-
- Effects on adoption of MFRS 9	17,880
As restated at 1 July 2018	17,880
Fair value gains	1,804
At 30 June 2019	19,684
At 1 July 2019	19,684
Fair value gains	2,631
At 30 June 2020	22,315

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS**

The Company's activities are organised by funds and segregated into the Life Fund and Shareholders' Fund 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 2020

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Assets					
Property, plant and equipment	1,993	79,985	-	-	81,978
Intangible assets	-	7,312	-	-	7,312
Right-of-use assets	786	6,683	-	-	7,469
Investment properties	210,000	262,610	-	-	472,610
Financial assets	704,373	15,851,078	2,923,494	-	19,478,945
- FVTPL financial assets	704,343	14,778,063	2,894,214	-	18,376,620
- AC financial assets	30	1,073,015	29,280	-	1,102,325
Derivative assets	92	9,028	994	-	10,114
Reinsurance assets	-	31,793	-	-	31,793
Insurance receivables	-	89,819	-	-	89,819
Other receivables	1,514,017	21,111	2,150	(1,517,454)	19,824
Cash and cash equivalents	33,097	1,495,620	229,200	-	1,757,917
Total assets	2,464,358	17,855,039	3,155,838	(1,517,454)	21,957,781

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2020 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	1,681,266	-	-	-	1,681,266
Total equity	1,881,266	-	-	-	1,881,266
Insurance contract liabilities	-	12,756,343	3,128,525	-	15,884,868
Deferred tax liabilities	252,904	87,992	(2,217)	-	338,679
Tax payables	2,544	14,592	1,941	-	19,077
Insurance payables	-	3,272,548	-	-	3,272,548
Other payables	22,132	1,695,090	27,405	(1,517,454)	227,173
Lease Liabilities	819	6,886	-	-	7,705
Derivative liabilities	10	21,588	184	-	21,782
Subordinated notes	304,683	-	-	-	304,683
Total policyholders' fund and liabilities	583,092	17,855,039	3,155,838	(1,517,454)	20,076,515
Total equity, policyholders' fund and liabilities	2,464,358	17,855,039	3,155,838	(1,517,454)	21,957,781

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2019**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Assets					
Property, plant and equipment	2,100	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
Total assets	2,566,559	16,728,781	2,582,034	(1,439,078)	20,438,296

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NOTES TO THE FINANCIAL STATEMENTS**34 . 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
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	1,590,026	-	-	-	1,590,026
Total equity	1,790,026	-	-	-	1,790,026
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
Total policyholders' fund and liabilities	776,533	16,728,781	2,582,034	(1,439,078)	18,648,270
Total equity, policyholders' fund and liabilities	2,566,559	16,728,781	2,582,034	(1,439,078)	20,438,296

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Gross earned premiums	-	2,038,333	793,062	-	2,831,395
Premiums ceded to reinsurers	-	(109,058)	-	-	(109,058)
Net earned premiums	-	1,929,275	793,062	-	2,722,337
Investment income	32,129	719,212	91,141	-	842,482
Realised losses	(351)	(4,279)	(4,756)	-	(9,386)
Fair value (losses)/gains	(44,665)	248,528	(59,529)	-	144,334
Fees and commission income	-	31,121	-	(16,934)	14,187
Other operating income/(expense)-net	2,802	53,443	(30,315)	-	25,930
Other revenue	(10,085)	1,048,025	(3,459)	(16,934)	1,017,547
Gross benefits and claims paid	-	(1,607,724)	(219,159)	-	(1,826,883)
Claims ceded to reinsurers	-	101,152	-	-	101,152
Gross change to contract liabilities	-	(670,918)	(555,887)	-	(1,226,805)
Change in contract liabilities ceded to reinsurers	-	(16,000)	-	-	(16,000)
Net benefits and claims	-	(2,193,490)	(775,046)	-	(2,968,536)
Fees and commission expense	2,413	(344,376)	(16,934)	16,934	(341,963)
Management expenses	(3,442)	(168,389)	(164)	-	(171,995)
Other expenses	(1,029)	(512,765)	(17,098)	16,934	(513,958)
Finance costs	(21,184)	-	-	-	(21,184)
Profit from operations	(32,298)	271,045	(2,541)	-	236,206

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Profit from operations	(32,298)	271,045	(2,541)	-	236,206
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	74,200	(74,200)	-	-	-
Profit before taxation	41,902	196,845	(2,541)	-	236,206
Taxation	(25,196)	(72,311)	2,541	-	(94,966)
Net profit for the financial year	16,706	124,534	-	-	141,240

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS
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)
Net earned premiums	-	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/(expense)-net	3,132	36,659	(20,668)	-	19,123
Other revenue	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)
Net benefits and claims	-	(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)
Other expenses	(25,938)	(551,889)	(13,604)	13,615	(577,816)
Finance costs	(22,677)	-	-	-	(22,677)
Profit from operations	(6,975)	380,512	6,364	-	379,901

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS****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
Profit from operations	(6,975)	380,512	6,364	-	379,901
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	125,000	(125,000)	-	-	-
Profit before taxation	118,025	255,512	6,364	-	379,901
Taxation	(44,557)	(107,930)	(6,364)	-	(158,851)
Net profit for the financial year	73,468	147,582	-	-	221,050

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NOTES TO THE FINANCIAL STATEMENTS**35 . INVESTMENT-LINKED FUND**

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

	2020	2019
	RM'000	RM'000
<u>Statement of financial position</u>		
Assets		
Financial assets - FVTPL financial assets	3,759	3,688
Other receivables	12	-
Cash and cash equivalents	2	-
Total assets	<u>3,773</u>	<u>3,688</u>
Liabilities		
Tax payables	(2)	(12)
Deferred tax liabilities	(15)	(3)
Total liabilities	<u>(17)</u>	<u>(15)</u>
Net asset value	<u>3,790</u>	<u>3,703</u>
<u>Statement of comprehensive income</u>		
Net earned premiums	<u>246</u>	<u>267</u>
Fair value (losses)/gains	<u>(173)</u>	<u>63</u>
Other revenue	<u>(173)</u>	<u>63</u>
Gross change to contract liabilities	<u>(87)</u>	<u>(325)</u>
Net benefits and claims	<u>(87)</u>	<u>(325)</u>
(Losses)/profit before taxation	(14)	5
Taxation	14	(5)
Net profit for the financial year	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS

36 . EQUITY COMPENSATION BENEFITS

Executive Share Scheme ("ESS")

The ESS comprises of the Executive Share Option Scheme 2013/2023 ("ESOS") and the Executive Share Grant Scheme ("ESGS").

(I) ESOS

The ESOS which was approved by the shareholders of the HLFM on 30 October 2012, was established on 12 March 2013 and would be in force for a period of ten (10) years.

The ESOS would provide an opportunity for eligible executives who had contributed to the growth and development of the Company to participate in the equity of HLFM.

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

There were 13,200,000 options granted at an exercise price of RM16.88 on 2 April 2015.

Arising from the completion of the Rights Issue of HLFM on 7 December 2015, the exercise price for the share options granted on 2 April 2015 under the ESS 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 ESS.

The vesting period of 5.20 years from grant date, has expired on 14 June 2020.

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

There were 10,450,000 options granted at an exercise price of RM17.12 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.

(II) ESGS

The ESGS which was approved by the shareholders of HLFM on 29 October 2013, was established on 28 February 2014 and would end on 11 March 2023.

The ESGS would provide the Company with the flexibility to reward the eligible executives for their contribution with awards of HLFM's shares without any consideration payable by the eligible executives.

There are no share granted under the ESGS to date.

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NOTES TO THE FINANCIAL STATEMENTS

36 . EQUITY COMPENSATION BENEFITS (CONT'D)

Executive Share Scheme ("ESS") (cont'd)

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 ("KPI") 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.

A trust has been set up for the ESS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase ordinary shares of HLFM from the open market for the purposes of this trust.

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

	2020	2019
	'000 units	'000 units
As at 1 July	1,084	2,518
Purchase	3,000	-
Exercised	(2)	(1,434)
As at 30 June	<u>4,082</u>	<u>1,084</u>

(I) ESOS

The options granted under the scheme are as follows:

	Options 2015		Options 2018	
	2020	2019	2020	2019
	'000 units	'000 units	'000 units	'000 units
As at 1 July	717	2,169	9,750	9,750
Exercised	(2)	(1,434)	-	-
Ceased/forfeited	(715)	(18)	(4,325)	-
As at 30 June	<u>-</u>	<u>717</u>	<u>5,425</u>	<u>9,750</u>
Exercisable as at 30 June	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS**36 . EQUITY COMPENSATION BENEFITS (CONT'D)****Executive Share Scheme ("ESS") (cont'd)****(I) ESOS (CONT'D)**

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

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

	Options 2015		Options 2018	
	2020	2019	2020	2019
Fair value of share options (RM)	-	2.38	0.65-1.61	1.51-3.20
Share price at valuation date (RM)	-	18.54	13.10	18.54
Adjusted exercise price (RM)	-	16.61	-	-
Original exercise price (RM)	-	16.88	17.12	17.12
Expected volatility (%)	-	16.29	33.24	16.29
Weighted average dividend yield (%)	-	2.27	3.21	2.27
Weighted average risk free rate (%)	-	3.10	2.10	3.10

The weighted average remaining option life as at 30 June 2020 is 1.97 years.

During the financial year, the Company had recognised share-based compensation income amounting to RM7,874,561 (share-based compensation expense for 2019: RM2,413,097).

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NOTES TO THE FINANCIAL STATEMENTS

37 . SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- (i) On 3 February 2020, the Company issued RM300.0 million nominal value of Tier 2 subordinated notes at a coupon rate of 3.85%. The subordinated notes have a tenure of 10 years non-callable 5 years.
- (ii) On 7 February 2020, the Company had fully redeemed the RM500.0 million nominal value of subordinated notes.
- (iii) On 11 March 2020, the World Health Organisation ("WHO") declared COVID-19 as a pandemic and this was followed by a Movement Control Order ("MCO") imposed by Malaysian government starting 18 March 2020 to control the spread of the pandemic. The pandemic has disrupted business operations globally and the resulting lower interest rates affecting insurance contract liabilities and volatile equity markets has resulted in the Company reporting lower net profit for the financial year.

On 27 March 2020, Bank Negara Malaysia ("BNM") had announced a number of measures to assist policyholders to manage the impact of the COVID-19 outbreak.

The relief measures that are extended to our affected policyholders included:

- Deferment of payment of life insurance premiums;
- Extension of flexibilities to reinstate or preserve life insurance protection; and
- Expedited claims processing

Under the relief measures, affected policyholders are eligible to apply for deferment of payment of their life insurance premiums and flexibilities are extended to the affected policyholders to reinstate or preserve their life insurance. The take up rate has been minimal and has no significant impact to the Company.

38 . 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.

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NOTES TO THE FINANCIAL STATEMENTS

39 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 16 LEASES

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" ("ROU") of the underlying asset and a lease liability reflecting future lease payments for most leases.

The ROU asset is depreciated in accordance with the principle as set out in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in statement of comprehensive 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 adopted this standard from its mandatory adoption date of 1 July 2019. As permitted by MFRS 16, the Company has applied the modified retrospective approach and will not restate comparative amounts for the financial year prior to the first adoption. ROU assets for property leases will be measured on transition as if the new rules had always been applied. All other ROU assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 for the Company was at 9.07% per annum.

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NOTES TO THE FINANCIAL STATEMENTS**39 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 16 LEASES (CONT'D)**

(i) The table below summarises the effects upon adoption of MFRS 16 as at 1 July 2019:

	As at 30 June 2019 RM'000	Effects of adopting MFRS 16 RM'000	As restated 1 July 2019 RM'000
Right-of-use assets	-	6,210	6,210
Lease Liabilities	-	6,210	6,210

(ii) The reconciliation on the operating lease commitments disclosed under MFRS 117 to MFRS 16 are as follows:

Operating lease commitments as at 30 June 2019	RM'000 2,864
Discounted using the incremental borrowing rates	(110)
	<hr/> 2,754
Adjustment as a result of a different treatment of extention and termination options	3,456
	<hr/> 6,210
Lease liabilities recognised as at 1 July 2019	<hr/> <hr/> 6,210