

HONG LEONG ASSURANCE BERHAD
(Company No. 94613-X)
(Incorporated in Malaysia)

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018**

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

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HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	Note	31.12.2018 RM'000	30.6.2018 RM'000
Assets			
Property, plant and equipment		83,797	83,434
Intangible assets		4,968	6,541
Investment properties	3	494,164	494,164
Financial assets	4	16,667,119	15,763,366
- Held-to-maturity financial assets	4	-	611,075
- Available-for-sale financial assets	4	-	10,904,597
- Fair value through profit or loss financial assets	4	16,066,019	3,401,161
- Loans and receivables	4	-	846,533
- Amortised cost financial assets	4	601,100	-
Derivative assets		19,747	24,104
Deferred tax assets		5,633	-
Reinsurance assets	6	51,298	49,908
Insurance receivables		89,473	114,940
Other receivables		26,541	80,133
Non-current assets held-for-sale		63	60
Cash and cash equivalents		1,358,834	1,594,615
Total assets		18,801,637	18,211,265
Equity, policyholders' fund and liabilities			
Share capital		200,000	200,000
Reserves		1,462,569	1,460,374
Total equity		1,662,569	1,660,374
Insurance contract liabilities	6	13,331,799	12,888,019
Deferred tax liabilities		256,636	225,707
Tax payables		14,376	21,482
Insurance payables		2,798,617	2,630,836
Other payables		211,498	259,784
Derivative liabilities		18,319	17,514
Subordinated notes		507,823	507,549
Total policyholders' fund and liabilities		17,139,068	16,550,891
Total equity, policyholders' fund and liabilities		18,801,637	18,211,265

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

HONG LEONG ASSURANCE BERHAD

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**UNAUDITED CONDENSED STATEMENT OF INCOME
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018**

	6 months ended 31.12.2018 RM'000	6 months ended 31.12.2017 RM'000
Gross earned premiums	1,334,444	1,456,174
Premiums ceded to reinsurers	(52,968)	(39,343)
Net earned premiums	1,281,476	1,416,831
Investment income	399,518	366,081
Realised gains	13,618	64,260
Fair value (losses)/gains	(60,360)	98,426
Other operating income-net	10,865	-
Other revenue	363,641	528,767
Gross benefits and claims paid	(825,944)	(844,146)
Claims ceded to reinsurers	34,656	33,690
Gross change to contract liabilities	(434,771)	(657,515)
Change in contract liabilities ceded to reinsurers	546	426
Net benefits and claims	(1,225,513)	(1,467,545)
Fees and commission expense	(173,450)	(199,493)
Management expenses	(93,554)	(80,115)
Other operating expenses-net	-	(27,845)
Other expenses	(267,004)	(307,453)
Finance cost	(11,431)	(11,431)
Surplus before taxation	141,169	159,169
Tax expense attributable to participating fund and unitholders	(15,515)	(29,825)
Profit before taxation attributable to shareholders	125,654	129,344
Taxation	(47,576)	(67,519)
Tax expense attributable to participating fund and unitholders	15,515	29,825
Taxation attributable to shareholders	(32,061)	(37,694)
Net profit for the financial period	93,593	91,650
Earnings per share (sen)	46.80	45.83

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

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**UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018**

	6 months ended 31.12.2018 RM'000	6 months ended 31.12.2017 RM'000
Net profit for the financial period	93,593	91,650
Other comprehensive income:		
<u>Items that may be subsequently reclassified to profit or loss:</u>		
Fair value changes on available-for-sale financial assets, net of deferred tax:		
Gross fair value gains arising during the financial period	-	52,645
Gross fair value gains transferred to income statement	-	(55,954)
	-	(3,309)
Tax effects thereon	-	(329)
Net fair value losses	-	(3,638)
Change in insurance contract liabilities arising from net fair value changes	-	5,740
	-	2,102
Total comprehensive income for the financial period	93,593	93,752

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

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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018**

	Issued and fully paid ordinary shares of RM1 each		Reserves			Total RM'000
	No. of shares '000	Share capital RM'000	Non-distributable Fair value reserve RM'000	*Retained earnings RM'000	Distributable Retained earnings RM'000	
At 1 July 2017	200,000	200,000	69,625	857,807	444,657	1,572,089
Net profit for the financial period	-	-	-	77,267	14,383	91,650
Other comprehensive income for the financial period	-	-	2,102	-	-	2,102
Dividend paid during the financial period	-	-	-	-	(80,000)	(80,000)
At 31 December 2017	200,000	200,000	71,727	935,074	379,040	1,585,841
At 1 July 2018	200,000	200,000	26,454	942,558	491,362	1,660,374
- effect of adopting MFRS 9	-	-	(26,454)	10,842	24,214	8,602
As restated at 1 July 2018	200,000	200,000	-	953,400	515,576	1,668,976
Net profit/(loss) for the financial period	-	-	-	101,100	(7,507)	93,593
Dividend paid during the financial period	-	-	-	-	(100,000)	(100,000)
At 31 December 2018	200,000	200,000	-	1,054,500	408,069	1,662,569

* 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

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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018**

	6 months ended 31.12.2018 RM'000	6 months ended 31.12.2017 RM'000
Operating activities		
Net profit for the financial period	93,593	91,650
Adjustments for:		
Investment income recorded in income statement	(399,518)	(366,081)
Realised gains recorded in income statement	(13,897)	(59,724)
Fair value losses/(gains) recorded in income statement	60,360	(98,426)
Foreign exchange (gains)/losses	(6,736)	25,366
Proceeds from sale of fair value through profit or loss financial assets	1,688,709	313,393
Maturity of fair value through profit or loss financial assets	478,787	48,936
Purchase of fair value through profit or loss financial assets	(3,306,695)	(791,463)
Proceeds from sale of available-for-sale financial assets	-	730,255
Maturity of available-for-sale financial assets	-	1,034,846
Purchase of available-for-sale financial assets	-	(2,030,443)
(Purchase)/proceeds from realisation of derivatives	(4,532)	6,548
Decrease in amortised cost financial assets	242,881	-
Increase in loan and receivables	-	(274,734)
Finance costs	11,431	11,431
	<u>(1,249,210)</u>	<u>(1,450,096)</u>
Non-cash items:		
Depreciation of property, plant and equipment	2,569	2,367
Amortisation of intangible assets	1,905	1,449
Impairment on available-for-sale financial assets	-	8,444
Tax expense	47,576	67,519
	<u>52,050</u>	<u>79,779</u>

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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018 (CONT'D)**

	6 months ended 31.12.2018 RM'000	6 months ended 31.12.2017 RM'000
Changes in working capital:		
Increase in reinsurance assets	(1,390)	(4,099)
Decrease in insurance receivables	18,694	33,661
Decrease in other receivables	46,488	13,238
Increase in insurance contract liabilities	437,707	664,106
Increase in insurance payables	167,781	153,166
Decrease in other payables	(48,286)	(47,726)
	<u>620,994</u>	<u>812,346</u>
Cash used in operating activities	(482,573)	(466,321)
Dividend income received	85,256	67,607
Interest income received	308,571	287,178
Rental income received	(70)	6,980
Income taxes paid	(32,697)	(26,185)
Net cash outflow from operating activities	<u>(121,513)</u>	<u>(130,741)</u>
Investing activities		
Purchase of property, plant and equipment	(2,932)	(2,942)
Purchase of intangible assets	(332)	(278)
Net cash outflow from investing activities	<u>(3,264)</u>	<u>(3,220)</u>
Financing activities		
Dividends paid	(100,000)	(80,000)
Interest paid on subordinated notes	(11,157)	(11,157)
Net cash outflow from financing activities	<u>(111,157)</u>	<u>(91,157)</u>
Effect of exchange rate changes on cash and cash equivalents	153	2,452
Net decrease in cash and cash equivalents	(235,781)	(222,666)
Cash and cash equivalents at beginning of the financial period	<u>1,594,615</u>	<u>1,650,479</u>
Cash and cash equivalents at end of the financial period	<u><u>1,358,834</u></u>	<u><u>1,427,813</u></u>

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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018 (CONT'D)**

	6 months ended 31.12.2018 RM'000	6 months ended 31.12.2017 RM'000
Cash and cash equivalents comprise:		
Cash and bank balances	65,495	85,177
Fixed and call deposits with maturity of less than 3 months		
- Licensed financial institutions	1,293,339	1,342,636
	<u>1,358,834</u>	<u>1,427,813</u>

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

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

	6 months ended 31.12.2018 RM'000	6 months ended 31.12.2017 RM'000
Subordinated note		
Balance at the beginning of the financial period	507,549	507,372
Cash changes:		
- Interest paid	(11,157)	(11,157)
Non-cash changes:		
- Accrued interest	11,342	11,342
- Amortised incidental costs	89	89
Balance at the end of the financial period	<u>507,823</u>	<u>507,646</u>

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1 . BASIS OF PREPARATION

The condensed interim financial statements for the six months ended 31 December 2018 of Hong Leong Assurance Berhad (“the Company”) are unaudited and have been prepared in accordance with MFRS 134/IAS 34: Interim Financial Reporting and should be read in conjunction with the Company’s audited financial statements for the financial year ended 30 June 2018, which were prepared in accordance with the Malaysian Financial Reporting Standards.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation applied in the unaudited condensed financial statements are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2018 and modified for the adoption of the following Amendments to MFRSs applicable for financial period beginning on or after 1 July 2018:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

With effect from the financial year beginning on/after 1 July 2018, the Company applies MFRS 9 'Financial Instruments', replacing MFRS 139 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices. As a general rule, more hedging relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. Comparatives for 2018 will not be restated. The impact of adoption of MFRS 9 to the Company is disclosed in Note 18.

The adoption of the above new standards and interpretation are not expected to have impact on the financial results of the Company, except for the cumulative impact on the adoption of MFRS 9 which is recognised in the retained earnings as at 1 July 2018.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**3. INVESTMENT PROPERTIES**

	31.12.2018	30.6.2018
	RM'000	RM'000
As at beginning of the financial period/year	494,164	496,624
Fair value losses	-	(2,460)
As at end of the financial period/year	<u>494,164</u>	<u>494,164</u>
The analysis of investment properties is as follows:		
Freehold land and building	492,094	492,094
Leasehold land and building	2,070	2,070
	<u>494,164</u>	<u>494,164</u>

The fair values of the investment properties as at 30 June 2018 were revalued by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. Fair value changes are recorded in the income statement.

Valuation techniques adopted

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

	31.12.2018	30.6.2018
	RM'000	RM'000
Level 2	2,070	2,070
Level 3	492,094	492,094
	<u>494,164</u>	<u>494,164</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**3. INVESTMENT PROPERTIES (CONT'D)**Valuation techniques adopted (cont'd)

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

	RM'000
At 1 July 2017	494,594
Fair value recognised in statements of income	(2,500)
	<hr/>
At 30 June 2018	492,094
	<hr/>
Fair value recognised in statements of income relating to assets held on 30 June 2018	(2,500)
	<hr/>
	RM'000
At 1 July 2018	492,094
Fair value recognised in statements of income	-
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At 31 December 2018	492,094
	<hr/>
Fair value recognised in statements of income relating to assets held on 30 June 2018	-
	<hr/>

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

Valuation Technique	Unobservable input	31.12.2018	30.6.2018
Comparison & Investment Method	Term Yield	-	4.55% - 6.86%
	Revisionary Rate	-	6.50% - 6.75%

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

	31.12.2018	30.6.2018
	RM'000	RM'000
Rental income generated	4,837	16,773
Direct operating expenses	(5,359)	(9,827)
	<hr/>	<hr/>
	(522)	6,946
	<hr/>	<hr/>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**4 . FINANCIAL ASSETS**

	31.12.2018	30.6.2018
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	5,762,249	5,110,368
Corporate bonds	6,155,635	5,778,899
Equity securities	2,280,090	2,265,759
Unit trusts and real estate investment trusts	1,224,466	1,201,356
Policy loans and premium loans	562,703	564,369
Deposits with financial institutions	681,976	842,615
	<u>16,667,119</u>	<u>15,763,366</u>

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

Held-to-maturity ("HTM") financial assets	-	611,075
Available-for-sale ("AFS") financial assets	-	10,904,597
Fair value through profit and loss ("FVTPL") financial assets	16,066,019	3,401,161
Loans and receivables	-	846,533
Amortised cost ("AC") financial assets	601,100	-
	<u>16,667,119</u>	<u>15,763,366</u>

The following investments mature within 12 months:

HTM financial assets	-	200,427
AFS financial assets	-	1,222,041
FVTPL financial assets	2,890,376	260,133
Loans and receivables	-	846,533
AC financial assets	601,100	-
	<u>3,491,476</u>	<u>2,529,134</u>

The following investments mature after 12 months:

HTM financial assets	-	410,648
AFS financial assets	-	9,682,556
FVTPL financial assets	13,175,643	3,141,028
	<u>13,175,643</u>	<u>13,234,232</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**4 . FINANCIAL ASSETS (CONT'D)**

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

(c) FVTPL financial assets

	31.12.2018	30.6.2018
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	5,762,249	788,878
Corporate bonds		
- Unquoted in Malaysia	5,793,156	979,765
- Unquoted outside Malaysia	362,479	-
Equity securities		
- Quoted in Malaysia *	2,044,340	576,816
- Quoted outside Malaysia	217,870	64,278
- Unquoted in Malaysia	17,880	-
Unit trusts		
- Quoted in Malaysia	125,064	430,973
- Quoted outside Malaysia	4,204	-
- Unquoted in Malaysia	1,095,198	-
Fixed and call deposits		
- Licensed financial institutions	643,579	560,451
	<u>16,066,019</u>	<u>3,401,161</u>

* As at 31.12.2018, includes Hong Leong Financial Group Berhad ("HLFG") ordinary shares held by MTrustee Berhad for the ESOS scheme by HLFG redesignated from AFS financial assets.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**4 . FINANCIAL ASSETS (CONT'D)**

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

(d) Loans and receivables

	31.12.2018	30.6.2018
	RM'000	RM'000
At cost:		
Fixed and call deposits		
- Licensed financial institutions	-	282,164
Policy loans	-	34,434
Premium loans	-	529,935
	<u>-</u>	<u>846,533</u>
	<u>-</u>	<u>846,533</u>
At fair value:		
Fixed and call deposits		
- Licensed financial institutions	-	282,164
Policy loans	-	34,434
Premium loans	-	529,935
	<u>-</u>	<u>846,533</u>
	<u>-</u>	<u>846,533</u>

(e) AC financial assets

	31.12.2018	30.6.2018
	RM'000	RM'000
At cost:		
Fixed and call deposits		
- Licensed financial institutions	38,397	-
Policy loans	35,330	-
Premium loans	527,373	-
	<u>601,100</u>	<u>-</u>
	<u>601,100</u>	<u>-</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

5. 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 UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**5. FAIR VALUE HIERARCHY (CONT'D)**

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

	Fair value			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<u>Recurring fair value measurement</u>				
31.12.2018				
Financial assets				
FVTPL financial assets	2,391,478	13,656,661	17,880	16,066,019
Derivative assets	-	19,747	-	19,747
Total assets	<u>2,391,478</u>	<u>13,676,408</u>	<u>17,880</u>	<u>16,085,766</u>
Financial liabilities				
Derivative liabilities	-	18,319	-	18,319
Total liabilities	<u>-</u>	<u>18,319</u>	<u>-</u>	<u>18,319</u>
30.6.2018				
Financial assets				
AFS financial assets	2,392,901	8,509,549	2,147	10,904,597
FVTPL financial assets	1,072,067	2,329,094	-	3,401,161
Loans and receivables	-	846,533	-	846,533
Derivative assets	-	24,104	-	24,104
Total assets	<u>3,464,968</u>	<u>11,709,280</u>	<u>2,147</u>	<u>15,176,395</u>
Financial liabilities				
Derivative liabilities	-	17,514	-	17,514
Total liabilities	<u>-</u>	<u>17,514</u>	<u>-</u>	<u>17,514</u>

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**5. FAIR VALUE HIERARCHY (CONT'D)**

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

	AFS financial assets RM'000	FVTPL financial assets RM'000	Total RM'000
30.6.2018			
At 1 July 2017/At 30 June 2018	2,147	-	2,147
- effect of adopting MFRS 9	(2,147)	17,880	15,733
	<hr/>	<hr/>	<hr/>
As restated at 1 July 2018 / At 31 December 2018	-	17,880	17,880
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

HONG LEONG ASSURANCE BERHAD

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**6. INSURANCE CONTRACT LIABILITIES**

	Gross		Reinsurance		Net	
	31.12.2018	30.6.2018	31.12.2018	30.6.2018	31.12.2018	30.6.2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	107,414	104,479	(25,418)	(24,576)	81,996	79,903
Actuarial liabilities	10,396,200	10,130,530	(25,879)	(25,332)	10,370,321	10,105,198
Unallocated surplus	634,671	426,603	-	-	634,671	426,603
Fair value adjustment on AFS financial assets	-	140,754	-	-	-	140,754
Net asset value attributable to unitholders (Note 9)	2,193,514	2,085,653	-	-	2,193,514	2,085,653
Life insurance contract liabilities	<u>13,331,799</u>	<u>12,888,019</u>	<u>(51,297)</u>	<u>(49,908)</u>	<u>13,280,502</u>	<u>12,838,111</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**6. INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2017	9,326,400	2,778,294	12,104,694	(1,113)	(43,476)	(44,589)	12,060,105
Change in non-economic assumptions and valuation methodology:							
Model and Methodology	2,265	1,498	3,763	-	-	-	3,763
Mortality & TPD Assumption	-	-	-	-	(191)	(191)	(191)
HSI, HIB and PA Assumptions	-	(73)	(73)	-	-	-	(73)
Expense Assumption	3	(599)	(596)	-	-	-	(596)
Lapse Assumption	-	9,380	9,380	-	(2,101)	(2,101)	7,279
Other Assumptions	(193,943)	2,237	(191,706)	-	14	14	(191,692)
Change in economic assumptions	-	(36,658)	(36,658)	-	482	482	(36,176)
Projected change for inforce policies at 30 June 2017	553,779	87,460	641,239	-	1,483	1,483	642,722
Experience variance	(151,892)	3,300	(148,592)	-	(199)	(199)	(148,791)
IBNR	-	5,503	5,503	-	-	-	5,503
Others - EMGS Inwards Reinsurance	-	23	23	-	-	-	23
New business	21,005	82,456	103,461	-	(1,758)	(1,758)	101,703
Change in unprocessed unit reserves	-	(9,223)	(9,223)	-	-	-	(9,223)
Change in provision for outstanding claims	(396)	7,827	7,431	(165)	(2,883)	(3,048)	4,383
Change in net asset value attributable to unitholders	-	288,449	288,449	-	-	-	288,449
Change in fair value of AFS financial assets	(170,654)	-	(170,654)	-	-	-	(170,654)
Change in unallocated surplus	281,577	-	281,577	-	-	-	281,577
At 30 June 2018	9,668,143	3,219,876	12,888,019	(1,278)	(48,630)	(49,908)	12,838,111

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**6. INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2018	9,668,143	3,219,876	12,888,019	(1,278)	(48,630)	(49,908)	12,838,111
- effect of adopting 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	421	(853)	(432)	-	-	-	(432)
Lapse Assumption	-	(23)	(23)	-	-	-	(23)
Other Assumptions	(41,632)	-	(41,632)	-	-	-	(41,632)
Change in economic assumptions	-	22,268	22,268	-	(221)	(221)	22,047
Projected change for inforce policies at 30 June 2018	228,861	37,154	266,015	-	789	789	266,804
Experience variance	(39,166)	(2,919)	(42,085)	-	(120)	(120)	(42,205)
IBNR	66	1,246	1,312	-	-	-	1,312
Others - EMGS Inwards Reinsurance	-	309	309	-	-	-	309
New business	6,590	43,388	49,978	-	(995)	(995)	48,983
Change in unprocessed unit reserves	-	9,960	9,960	-	-	-	9,960
Change in provision for outstanding claims	(3,942)	6,877	2,935	(111)	(731)	(842)	2,093
Change in net asset value attributable to unitholders	-	107,861	107,861	-	-	-	107,861
Change in unallocated surplus	61,241	-	61,241	-	-	-	61,241
At 31 December 2018	9,886,655	3,445,144	13,331,799	(1,389)	(49,908)	(51,297)	13,280,502

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**7. TOTAL CAPITAL AVAILABLE**

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

	31.12.2018	30.6.2018
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up)	200,000	200,000
- Reserves	3,885,782	3,760,891
Eligible Tier 2 capital		
- Eligible reserves	500,000	667,697
Deductions	(4,968)	(6,541)
	<u>4,580,814</u>	<u>4,622,047</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial period ended 31.12.2018 and 30.6.2018.

8. CAPITAL COMMITMENTS

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

	31.12.2018	30.6.2018
	RM'000	RM'000
Authorised and contracted for:		
- Property, plant and equipment	258	304
- Intangible assets	2,198	896
	<u>2,456</u>	<u>1,200</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**9. INSURANCE FUNDS**

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

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2018**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	2,192	81,605	-	-	83,797
Intangible assets	-	4,968	-	-	4,968
Investment properties	231,594	262,570	-	-	494,164
Financial assets	880,827	13,829,451	1,956,841	-	16,667,119
- HFT financial assets	880,791	13,238,166	1,947,062	-	16,066,019
- AC financial assets	36	591,285	9,779	-	601,100
Derivative assets	62	19,319	366	-	19,747
Deferred tax assets	-	-	5,633	-	5,633
Reinsurance assets	-	51,298	-	-	51,298
Insurance receivables	-	89,473	-	-	89,473
Other receivables	1,291,817	23,151	1,466	(1,289,893)	26,541
Non-current assets held-for-sale	63	-	-	-	63
Cash and cash equivalents	19,198	1,105,227	234,409	-	1,358,834
Total assets	2,425,753	15,467,062	2,198,715	(1,289,893)	18,801,637

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**9 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2018 (CONT'D)**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	1,462,569	-	-	-	1,462,569
Total equity	1,662,569	-	-	-	1,662,569
Insurance contract liabilities	-	11,138,285	2,193,514	-	13,331,799
Deferred tax liabilities	235,835	20,774	27	-	256,636
Tax payables	1,345	10,322	2,709	-	14,376
Insurance payables	-	2,798,617	-	-	2,798,617
Other payables	18,181	1,480,745	2,465	(1,289,893)	211,498
Derivative liabilities	-	18,319	-	-	18,319
Subordinated notes	507,823	-	-	-	507,823
Total policyholders' fund and liabilities	763,184	15,467,062	2,198,715	(1,289,893)	17,139,068
Total equity, policyholders' fund and liabilities	2,425,753	15,467,062	2,198,715	(1,289,893)	18,801,637

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**9 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 30 JUNE 2018**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	2,177	81,257	-	-	83,434
Intangible assets	-	6,541	-	-	6,541
Investment properties	231,594	262,570	-	-	494,164
Financial assets	859,231	13,021,130	1,883,005	-	15,763,366
- HTM financial assets	-	611,075	-	-	611,075
- AFS financial assets	859,195	10,045,402	-	-	10,904,597
- HFT financial assets	-	1,534,896	1,866,265	-	3,401,161
- Loans and receivables	36	829,757	16,740	-	846,533
Derivative assets	-	24,104	-	-	24,104
Reinsurance assets	-	49,908	-	-	49,908
Insurance receivables	-	114,940	-	-	114,940
Other receivables	1,282,974	58,997	18,441	(1,280,279)	80,133
Non-current assets held-for-sale	60	-	-	-	60
Cash and cash equivalents	22,904	1,374,107	197,604	-	1,594,615
Total assets	2,398,940	14,993,554	2,099,050	(1,280,279)	18,211,265

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**9 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 30 JUNE 2018 (CONT'D)**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	1,460,374	-	-	-	1,460,374
Total equity	1,660,374	-	-	-	1,660,374
Insurance contract liabilities	-	10,802,366	2,085,653	-	12,888,019
Deferred tax liabilities	211,131	12,104	2,472	-	225,707
Tax payables	8,304	8,710	4,468	-	21,482
Insurance payables	-	2,630,836	-	-	2,630,836
Other payables	11,480	1,522,745	5,838	(1,280,279)	259,784
Derivative liabilities	102	16,793	619	-	17,514
Subordinated notes	507,549	-	-	-	507,549
Total policyholders' fund and liabilities	738,566	14,993,554	2,099,050	(1,280,279)	16,550,891
Total equity, policyholders' fund and liabilities	2,398,940	14,993,554	2,099,050	(1,280,279)	18,211,265

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**9 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED INCOME STATEMENT BY FUND
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2018**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	-	1,062,835	271,609	-	1,334,444
Premiums ceded to reinsurers	-	(52,968)	-	-	(52,968)
Net earned premiums	-	1,009,867	271,609	-	1,281,476
Investment income	16,903	344,048	38,567	-	399,518
Realised (losses)/gains	(193)	11,177	2,634	-	13,618
Fair value (losses)/gains	(75)	40,051	(100,336)	-	(60,360)
Fees and commission income	-	12,766	-	(12,766)	-
Other operating income-net	1,165	18,204	(8,504)	-	10,865
Other revenue	17,800	426,246	(67,639)	(12,766)	363,641
Gross benefits and claims paid	-	(729,987)	(95,957)	-	(825,944)
Claims ceded to reinsurers	-	34,656	-	-	34,656
Gross change to contract liabilities	-	(326,910)	(107,861)	-	(434,771)
Change in contract liabilities ceded to reinsurers	-	546	-	-	546
Net claims	-	(1,021,695)	(203,818)	-	(1,225,513)
Fees and commission expense	833	(180,550)	(6,499)	12,766	(173,450)
Management expenses	(11,856)	(81,752)	54	-	(93,554)
Other expenses	(11,023)	(262,302)	(6,445)	12,766	(267,004)
Finance costs	(11,431)	-	-	-	(11,431)
(Loss)/profit before taxation	(4,654)	152,116	(6,293)	-	141,169
Taxation	(25,045)	(28,824)	6,293	-	(47,576)
Net (loss)/profit for the financial period	(29,699)	123,292	-	-	93,593

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**9 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED INCOME STATEMENT BY FUND
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2017**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	-	1,183,350	272,824	-	1,456,174
Premiums ceded to reinsurers	-	(39,343)	-	-	(39,343)
Net earned premiums	-	1,144,007	272,824	-	1,416,831
Investment income	19,267	322,311	24,503	-	366,081
Realised gains/(losses)	5,863	59,699	(1,302)	-	64,260
Fair value gains	181	20,100	78,145	-	98,426
Fees and commission income	-	11,450	-	(11,450)	-
Other revenue	25,311	413,560	101,346	(11,450)	528,767
Gross benefits and claims paid	-	(741,610)	(102,536)	-	(844,146)
Claims ceded to reinsurers	-	33,690	-	-	33,690
Gross change to contract liabilities	-	(409,124)	(248,391)	-	(657,515)
Change in contract liabilities ceded to reinsurers	-	426	-	-	426
Net claims	-	(1,116,618)	(350,927)	-	(1,467,545)
Fees and commission expense	563	(204,471)	(7,035)	11,450	(199,493)
Management expenses	2,822	(80,245)	(2,692)	-	(80,115)
Other operating expenses-net	143	(21,651)	(6,337)	-	(27,845)
Other expenses	3,528	(306,367)	(16,064)	11,450	(307,453)
Finance costs	(11,431)	-	-	-	(11,431)
Profit before taxation	17,408	134,582	7,179	-	159,169
Taxation	(32,588)	(27,752)	(7,179)	-	(67,519)
Net (loss)/profit for the financial period	(15,180)	106,830	-	-	91,650

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**10 . INVESTMENT-LINKED FUND**

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

	31.12.2018	30.6.2018
	RM'000	RM'000
<u>Statement of financial position</u>		
Assets		
Financial assets - FVTPL financial assets/total assets	3,257	3,358
Cash and cash equivalents	8	-
Total assets	<u>3,265</u>	<u>3,358</u>
Liabilities		
Deferred tax liabilities	(27)	(8)
Tax payables	(10)	(10)
Total liabilities	<u>(37)</u>	<u>(18)</u>
Net asset value	<u>3,302</u>	<u>3,376</u>
	6 months ended	6 months ended
	31.12.2018	31.12.2017
	RM'000	RM'000
<u>Statement of comprehensive income</u>		
Gross/Net earned premiums	148	-
Realised (losses)/gains	(1)	13
Fair value (losses)/gains	(240)	179
Other revenue	<u>(93)</u>	<u>192</u>
Gross benefits and claims paid	-	(173)
Gross change to contract liabilities	74	(4)
Net claims	<u>74</u>	<u>(177)</u>
(Loss)/profit before taxation	(19)	15
Taxation	19	(15)
Net profit for the financial period	<u>-</u>	<u>-</u>

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

11 . ITEMS OF AN UNUSUAL NATURE

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

12 . CHANGES IN ESTIMATE

There were no material changes in the basis used for accounting estimates for the financial period under review.

13 . SEASONAL OR CYCLICAL FACTORS

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

14 . CHANGES IN CONTIGENT LIABILITIES OR CONTIGENT ASSETS

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

15 . DEBTS AND EQUITY SECURITIES

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

16 . RELATED PARTY TRANSACTIONS

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

17 . SUBSEQUENT EVENTS

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**18 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS**

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

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**18 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D)**

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

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**18 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D)**

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

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**18 . FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D)**

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

Insurance contract liabilities

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

Deferred tax liabilities

Closing balance under MFRS 139 as at 30 June 2018	225,707
- unrealised gains on redesignation from HTM financial assets	704
- unrealised gains on redesignation from AFS financial assets	3,857
- recognition of expected credit losses under MFRS 9	(773)
Opening balance under MFRS 9 as at 1 July 2018	<u>229,495</u>