

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 2016**

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

CONTENTS	PAGE
UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION	1
UNAUDITED CONDENSED STATEMENT OF INCOME	2
UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME	3
UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY	4
UNAUDITED CONDENSED STATEMENT OF CASH FLOWS	5 to 7
NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS	8 to 28

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

	Note	31.12.2016 RM'000	30.6.2016 RM'000
Assets			
Property, plant and equipment		88,937	87,458
Intangible assets		2,542	3,748
Investment properties	3	491,334	491,334
Financial assets	4	13,156,327	12,363,764
- Held-to-maturity financial assets	4	611,397	611,384
- Available-for-sale financial assets	4	9,563,254	8,671,708
- Fair value through profit or loss financial assets	4	2,019,349	1,718,141
- Loans and receivables	4	962,327	1,362,531
Derivative assets		692	8,673
Reinsurance assets	6	45,397	48,548
Insurance receivables		119,967	134,450
Other receivables		20,118	22,965
Non-current assets held-for-sale		60	60
Cash and cash equivalents		1,653,937	1,691,263
Total assets		15,579,311	14,852,263
Equity, policyholders' fund and liabilities			
Share capital		200,000	200,000
Reserves		1,259,926	1,238,646
Total equity		1,459,926	1,438,646
Insurance contract liabilities	7	11,091,542	10,574,190
Deferred tax liabilities		203,330	185,578
Tax payables		5,049	5,339
Insurance payables		2,104,071	1,900,569
Other payables		175,305	217,210
Derivative liabilities		32,681	23,659
Subordinated notes		507,407	507,072
Total policyholders' fund and liabilities		14,119,385	13,413,617
Total equity, policyholders' fund and liabilities		15,579,311	14,852,263

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 2016**

	6 months ended 31.12.2016 RM'000	6 months ended 31.12.2015 RM'000
Gross earned premiums	1,415,766	1,296,721
Premiums ceded to reinsurers	(31,554)	(39,756)
Net earned premiums	1,384,212	1,256,965
Investment income	325,919	288,091
Realised gains/(losses)	8,616	(56,475)
Fair value (losses)/gains	(19,844)	3,601
Fees and commission income	-	1,181
Other operating income-net	3,791	-
Other revenue	318,482	236,398
Gross benefits and claims paid	(708,073)	(690,982)
Claims ceded to reinsurers	23,458	29,551
Gross change to contract liabilities	(547,294)	(424,416)
Change in contract liabilities ceded to reinsurers	(555)	(21)
Net benefits and claims	(1,232,464)	(1,085,868)
Fees and commission expense	(210,764)	(189,208)
Management expenses	(79,797)	(67,823)
Other operating expenses-net	-	(14,400)
Other expenses	(290,561)	(271,431)
Finance cost	(11,431)	(11,431)
Surplus before taxation	168,238	124,633
Tax expense attributable to participating fund and unitholders	(19,592)	(15,044)
Profit before taxation attributable to shareholders	148,646	109,589
Taxation	(49,516)	(28,133)
Tax expense attributable to participating fund and unitholders	19,592	15,044
Taxation attributable to shareholders	(29,924)	(13,089)
Net profit for the financial period	118,722	96,500
Earnings per share (sen)	59.36	48.25

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

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**UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	6 months ended 31.12.2016 RM'000	6 months ended 31.12.2015 RM'000
Net profit for the financial period	118,722	96,500
Other comprehensive income:		
<u>Items that may be subsequently reclassified to profit or loss</u>		
Fair value changes on available-for-sale financial assets, net of deferred tax:		
Gross fair value losses arising during the financial period	(41,120)	(97,060)
Gross fair value gains transferred to income statement	(12,429)	(3,859)
	<u>(53,549)</u>	<u>(100,919)</u>
Tax effects thereon	6,206	12,582
Net fair value losses	(47,343)	(88,337)
Change in insurance contract liabilities arising from net fair value gains	36,901	70,379
	<u>(10,442)</u>	<u>(17,958)</u>
Total comprehensive income for the financial period	<u><u>108,280</u></u>	<u><u>78,542</u></u>

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 2016**

	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 2015	200,000	200,000	71,424	685,113	371,955	1,328,492
Net profit for the financial period	-	-	-	104,820	(8,320)	96,500
Other comprehensive income for the financial period	-	-	(17,958)	-	-	(17,958)
At 31 December 2015	<u>200,000</u>	<u>200,000</u>	<u>53,466</u>	<u>789,933</u>	<u>363,635</u>	<u>1,407,034</u>
At 1 July 2016	200,000	200,000	47,936	766,218	424,492	1,438,646
Net profit for the financial period	-	-	-	112,600	6,122	118,722
Other comprehensive income for the financial period	-	-	(10,442)	-	-	(10,442)
Dividend paid during the financial period	-	-	-	-	(87,000)	(87,000)
At 31 December 2016	<u>200,000</u>	<u>200,000</u>	<u>37,494</u>	<u>878,818</u>	<u>343,614</u>	<u>1,459,926</u>

* Non-distributable retained earnings comprise surplus of contracts without discretionary participation features, net of deferred tax, which is attributable wholly to the shareholders and the amount and timing of the distribution to the shareholders is subject to the recommendation of the Company's appointed actuary.

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

HONG LEONG ASSURANCE BERHAD

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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	6 months ended 31.12.2016 RM'000	6 months ended 31.12.2015 RM'000
Operating activities		
Net profit for the financial period	118,722	96,500
Adjustments for:		
Investment income recorded in income statement	(325,919)	(288,091)
Realised losses recorded in income statement	1,473	83,439
Fair value losses/(gains) recorded in income statement	19,844	(3,601)
Foreign exchange gains	(38,196)	(38,961)
Proceeds from sale of fair value through profit or loss financial assets	528,373	247,343
Maturity of fair value through profit or loss financial assets	1,869	13,706
Purchase of fair value through profit or loss financial assets	(819,075)	(476,782)
Proceeds from sale of available-for-sale financial assets	919,545	542,626
Maturity of available-for-sale financial assets	194,000	162,450
Purchase of available-for-sale financial assets	(2,034,061)	(1,312,655)
Purchase of derivatives	(25,586)	(58,193)
Decrease/(increase) in loan and receivables	387,711	(577,047)
Finance costs	11,431	11,431
	<u>(1,178,591)</u>	<u>(1,694,335)</u>
Non-cash items:		
Depreciation of property, plant and equipment	2,381	2,486
Gains on disposal of property, plant and equipment	(42)	-
Amortisation of intangible assets	1,230	1,140
Impairment on available-for-sale financial assets	37,432	56,380
Tax expense	49,516	28,133
	<u>90,517</u>	<u>88,139</u>

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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2016 (CONT'D)**

	6 months ended 31.12.2016 RM'000	6 months ended 31.12.2015 RM'000
Changes in working capital:		
Decrease in reinsurance assets	3,151	1,156
Decrease in insurance receivables	14,483	12,888
Decrease in other receivables	476	38,497
Increase in insurance contract liabilities	554,253	425,567
Increase in insurance payables	203,502	145,716
Decrease in other payables	(41,905)	(54,530)
	<u>733,960</u>	<u>569,294</u>
Cash used in operating activities	(235,392)	(940,402)
Dividend income received	60,338	44,646
Interest income received	258,217	224,187
Rental income received	8,390	9,863
Income taxes paid	(25,328)	(26,594)
Net cash inflow/(outflow) from operating activities	<u>66,225</u>	<u>(688,300)</u>
Investing activities		
Proceeds from sale of property, plant and equipment	42	-
Purchase of property, plant and equipment	(3,860)	(1,510)
Purchase of intangible assets	(24)	(50)
Net cash outflow from investing activities	<u>(3,842)</u>	<u>(1,560)</u>
Financing activities		
Dividends paid	(87,000)	-
Interest paid on subordinated notes	(11,096)	(11,034)
Net cash outflow from financing activities	<u>(98,096)</u>	<u>(11,034)</u>
Effect of exchange rate changes on cash and cash equivalents	(1,613)	(2,696)
Net decrease in cash and cash equivalents	(37,326)	(703,590)
Cash and cash equivalents at beginning of the financial period	<u>1,691,263</u>	<u>1,675,415</u>
Cash and cash equivalents at end of the financial period	<u><u>1,653,937</u></u>	<u><u>971,825</u></u>

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**UNAUDITED CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2016 (CONT'D)**

	6 months ended 31.12.2016 RM'000	6 months ended 31.12.2015 RM'000
Cash and cash equivalents comprise:		
Cash and bank balances	69,055	58,766
Fixed and call deposits with maturity of less than 3 months		
- Licensed financial institutions	1,584,882	913,059
	<u>1,653,937</u>	<u>971,825</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 2016 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 2016, which were prepared in accordance with the Malaysian Financial Reporting Standards.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and presentation adopted by the Company for the condensed interim financial statements are consistent with those adopted in the Company's audited financial statements for the financial year ended 30 June 2016, except for the adoption of the following:

- Amendments to MFRS 116 'Property, plant and equipment'
(effective from 1 January 2017)
- Amendments to MFRS 138 'Intangible Assets'
(effective from 1 January 2017)

The adoption of the above amendments to MFRSs are not expected to have significant financial impact to the financial statements of the Company.

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

	31.12.2016	30.6.2016
	RM'000	RM'000
As at beginning of the financial period/year	491,334	480,442
Fair value gain	-	10,892
As at end of the financial period/year	<u>491,334</u>	<u>491,334</u>
The analysis of investment properties is as follows:		
Freehold land and building	489,394	489,394
Leasehold land and building	1,940	1,940
	<u>491,334</u>	<u>491,334</u>

The fair values of the investment properties as at 30 June 2016 were revalued by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd. Fair value changes are recorded in the income statement.

Recurring fair value measurements

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

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

	31.12.2016	30.6.2016
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	3,357,330	2,536,457
Corporate bonds	5,376,718	5,630,746
Equity securities	2,288,138	1,971,855
Unit and property trust funds	858,031	618,377
Loans	601,909	614,679
Deposits with financial institutions	674,201	991,650
	<u>13,156,327</u>	<u>12,363,764</u>

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

Held-to-maturity financial assets ("HTM")	611,397	611,384
Available-for-sale financial assets ("AFS")	9,563,254	8,671,708
Fair value through profit and loss financial assets ("FVTPL")	2,019,349	1,718,141
Loans and receivables ("LAR")	962,327	1,362,531
	<u>13,156,327</u>	<u>12,363,764</u>

The following investments mature within 12 months:

AFS financial assets	1,151,299	312,461
FVTPL financial assets	50,766	1,912
Loans and receivables	962,327	1,362,531
	<u>2,164,392</u>	<u>1,676,904</u>

The following investments mature after 12 months:

HTM financial assets	611,397	611,384
AFS financial assets	8,411,955	8,359,247
FVTPL financial assets	1,968,583	1,716,229
	<u>10,991,935</u>	<u>10,686,860</u>

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

	31.12.2016	30.6.2016
	RM'000	RM'000
At amortised cost:		
Corporate bonds		
- Unquoted in Malaysia	611,397	611,384
	<u>611,397</u>	<u>611,384</u>
At fair value:		
Corporate bonds		
- Unquoted in Malaysia	622,630	629,948
	<u>622,630</u>	<u>629,948</u>

(b) AFS

	31.12.2016	30.6.2016
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	2,885,154	2,246,115
Corporate bonds		
- Unquoted in Malaysia	4,068,848	4,250,633
- Unquoted outside Malaysia	303,940	300,171
Equity securities		
- Quoted in Malaysia *	1,540,089	1,360,150
- Unquoted in Malaysia	2,147	2,147
- Quoted outside Malaysia	157,144	135,966
Unit trusts		
- Quoted in Malaysia	139,914	136,365
- Quoted outside Malaysia	30,611	26,421
- Unquoted in Malaysia	435,407	213,740
	<u>9,563,254</u>	<u>8,671,708</u>

* Includes Hong Leong Financial Group Berhad ("HLFG") ordinary shares held by AmTrustee Berhad for the ESOS scheme by HLFG.

There is no new option granted during the financial period ended 31.12.2016 and 30.6.2016.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

4 . FINANCIAL ASSETS (CONT'D)

(c) FVTPL

	31.12.2016	30.6.2016
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	472,176	290,342
Corporate bonds		
- Unquoted in Malaysia	391,452	355,209
- Unquoted outside Malaysia	1,081	113,349
Equity securities		
- Quoted in Malaysia	540,899	454,122
- Quoted outside Malaysia	47,859	19,470
Unit trusts		
- Quoted in Malaysia	18,384	18,117
- Quoted outside Malaysia	3,993	3,446
- Unquoted in Malaysia	229,722	220,288
Fixed and call deposits		
- Licensed financial institutions	313,783	243,798
	<u>2,019,349</u>	<u>1,718,141</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

4 . FINANCIAL ASSETS (CONT'D)

(d) LAR

	31.12.2016	30.6.2016
	RM'000	RM'000
At cost:		
Fixed and call deposits		
- Licensed financial institutions	360,418	747,852
Policy loans	34,949	32,122
Premium loans	566,960	582,557
	<u>962,327</u>	<u>1,362,531</u>
At fair value:		
Fixed and call deposits		
- Licensed financial institutions	360,418	747,852
Policy loans	34,949	32,122
Premium loans	566,960	582,557
	<u>962,327</u>	<u>1,362,531</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.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

5. FAIR VALUE HIERARCHY (CONT'D)

	Financial assets		
	AFS	FVTPL	Total
	RM'000	RM'000	RM'000
31.12.2016			
<u>Recurring fair value measurements</u>			
Level 1	1,867,758	611,135	2,478,893
Level 2	7,693,349	1,408,214	9,101,563
Level 3	2,147	-	2,147
	<u>9,563,254</u>	<u>2,019,349</u>	<u>11,582,603</u>

30.6.2016

Recurring fair value measurements

Level 1	1,658,902	495,155	2,154,057
Level 2	7,010,659	1,222,986	8,233,645
Level 3	2,147	-	2,147
	<u>8,671,708</u>	<u>1,718,141</u>	<u>10,389,849</u>

31.12.2016

Recurring fair value measurements

Level 2		<u>692</u>	<u>32,681</u>
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30.6.2016

Recurring fair value measurements

Level 2		<u>8,673</u>	<u>23,659</u>
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Derivatives	Derivatives
assets	liabilities
RM'000	RM'000

There is no significant transfer between Level 1 and Level 2 of the fair value hierarchy during the current financial period. There is also no movement in Level 3 of the fair value hierarchy during the current financial period.

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**6 . REINSURANCE ASSETS**

	31.12.2016	30.6.2016
	RM'000	RM'000
Reinsurance of insurance contracts	45,397	48,548

7 . INSURANCE CONTRACT LIABILITIES

	Gross		Reinsurance		Net	
	31.12.2016	30.6.2016	31.12.2016	30.6.2016	31.12.2016	30.6.2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	99,109	92,148	(22,170)	(24,766)	76,939	67,382
Actuarial liabilities	8,970,355	8,600,052	(23,227)	(23,782)	8,947,128	8,576,270
Unallocated surplus	315,896	262,058	-	-	315,896	262,058
Fair value adjustment on AFS financial assets	208,876	245,777	-	-	208,876	245,777
Net asset value attributable to unitholders (Note 11)	1,497,306	1,374,155	-	-	1,497,306	1,374,155
Life insurance contract liabilities	11,091,542	10,574,190	(45,397)	(48,548)	11,046,145	10,525,642

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**7. INSURANCE CONTRACT LIABILITIES (CONT'D)**

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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**7. INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2016	8,364,396	2,209,794	10,574,190	(6,890)	(41,658)	(48,548)	10,525,642
Change in non-economic assumptions and valuation methodology:							
Change in Valuation Methodology	(10,163)	4,236	(5,927)	-	-	-	(5,927)
Change in economic assumptions	(21,297)	(70,905)	(92,202)	-	860	860	(91,342)
Projected change for inforce policies at 30 June 2016	383,358	23,246	406,604	-	770	770	407,374
Experience variance	(37,488)	4,071	(33,417)	-	(215)	(215)	(33,632)
New business	76,507	18,738	95,245	-	(860)	(860)	94,385
Other changes	-	-	-	-	-	-	-
Change in provision for outstanding claims	(149)	7,110	6,961	151	2,445	2,596	9,557
Change in net asset value attributable to unitholders	-	123,151	123,151	-	-	-	123,151
Change in fair value of AFS financial assets	(36,901)	-	(36,901)	-	-	-	(36,901)
Change in unallocated surplus	53,838	-	53,838	-	-	-	53,838
At 31 December 2016	<u>8,772,101</u>	<u>2,319,441</u>	<u>11,091,542</u>	<u>(6,739)</u>	<u>(38,658)</u>	<u>(45,397)</u>	<u>11,046,145</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**8 . 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:

	31.12.2016	30.6.2016
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up)	200,000	200,000
- Reserves	3,547,254	3,195,157
Eligible Tier 2 capital		
- Eligible reserves	748,168	797,163
	<u>4,495,422</u>	<u>4,192,320</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial period ended 31.12.2016 and 30.6.2016.

9 . CAPITAL COMMITMENTS

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

	31.12.2016	30.6.2016
	RM'000	RM'000
Authorised and contracted for:		
- Property, plant and equipment	3,995	3,006
- Intangible assets	3,644	2,300
	<u>7,639</u>	<u>5,306</u>

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**10 . 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 the 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 2016**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	1,492	87,445	-	-	88,937
Intangible assets	-	2,542	-	-	2,542
Investment properties	226,594	264,740	-	-	491,334
Financial assets	829,210	11,008,353	1,318,764	-	13,156,327
- HTM financial assets	-	611,397	-	-	611,397
- AFS financial assets	829,176	8,734,078	-	-	9,563,254
- HFT financial assets	-	700,585	1,318,764	-	2,019,349
- Loans and receivables	34	962,293	-	-	962,327
Derivative assets	13	614	65	-	692
Reinsurance assets	-	45,397	-	-	45,397
Insurance receivables	-	119,967	-	-	119,967
Other receivables	1,072,979	21,115	1,660	(1,075,636)	20,118
Non-current assets held-for-sale	60	-	-	-	60
Cash and cash equivalents	22,183	1,450,338	181,416	-	1,653,937
Total assets	2,152,531	13,000,511	1,501,905	(1,075,636)	15,579,311

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**10 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2016 (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	1,259,926	-	-	-	1,259,926
Total equity	1,459,926	-	-	-	1,459,926
Insurance contract liabilities	-	9,594,237	1,497,305	-	11,091,542
Deferred tax liabilities	182,908	18,418	2,004	-	203,330
Tax payables	(4,169)	12,870	(3,652)	-	5,049
Insurance payables	-	2,104,071	-	-	2,104,071
Other payables	6,357	1,238,708	5,876	(1,075,636)	175,305
Derivative liabilities	102	32,207	372	-	32,681
Subordinated notes	507,407	-	-	-	507,407
Total policyholders' fund and liabilities	692,605	13,000,511	1,501,905	(1,075,636)	14,119,385
Total equity, policyholders' fund and liabilities	2,152,531	13,000,511	1,501,905	(1,075,636)	15,579,311

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**10 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 30 JUNE 2016**

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**10 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 30 JUNE 2016 (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	1,238,646	-	-	-	1,238,646
Total equity	1,438,646	-	-	-	1,438,646
Insurance contract liabilities	-	9,200,035	1,374,155	-	10,574,190
Deferred tax liabilities	161,358	23,017	1,203	-	185,578
Tax payables	1,769	7,942	(4,372)	-	5,339
Insurance payables	-	1,900,569	-	-	1,900,569
Other payables	8,080	1,237,401	6,412	(1,034,683)	217,210
Derivative liabilities	-	23,659	-	-	23,659
Subordinated notes	507,072	-	-	-	507,072
Total policyholders' fund and liabilities	678,279	12,392,623	1,377,398	(1,034,683)	13,413,617
Total equity, policyholders' fund and liabilities	2,116,925	12,392,623	1,377,398	(1,034,683)	14,852,263

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**10 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED INCOME STATEMENT BY FUND
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2016**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	-	1,246,401	169,365	-	1,415,766
Premiums ceded to reinsurers	-	(31,554)	-	-	(31,554)
Net earned premiums	-	1,214,847	169,365	-	1,384,212
Investment income	20,004	288,052	17,863	-	325,919
Realised gains/(losses)	1,250	(2,030)	9,396	-	8,616
Fair value (losses)/gains	(225)	(29,868)	10,249	-	(19,844)
Fees and commission income	-	8,558	-	(8,558)	-
Other operating income-net	323	4,573	(1,105)	-	3,791
Other revenue	21,352	269,285	36,403	(8,558)	318,482
Gross benefits and claims paid	-	(636,415)	(71,658)	-	(708,073)
Claims ceded to reinsurers	-	23,458	-	-	23,458
Gross change to contract liabilities	-	(424,143)	(123,151)	-	(547,294)
Change in contract liabilities ceded to reinsurers	-	(555)	-	-	(555)
Net claims	-	(1,037,655)	(194,809)	-	(1,232,464)
Fees and commission expense	234	(213,795)	(5,761)	8,558	(210,764)
Management expenses	(131)	(77,447)	(2,219)	-	(79,797)
Other expenses	103	(291,242)	(7,980)	8,558	(290,561)
Finance costs	(11,431)	-	-	-	(11,431)
Profit before taxation	10,024	155,235	2,979	-	168,238
Taxation	(26,965)	(19,572)	(2,979)	-	(49,516)
Net (loss)/profit for the financial period	(16,941)	135,663	-	-	118,722

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**10 . INSURANCE FUNDS (CONT'D)****UNAUDITED CONDENSED INCOME STATEMENT BY FUND
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2015**

	SHF	LF	ILF	Inter-fund elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	-	1,140,927	155,794	-	1,296,721
Premiums ceded to reinsurers	-	(39,756)	-	-	(39,756)
Net earned premiums	-	1,101,171	155,794	-	1,256,965
Investment income	18,403	253,764	15,924	-	288,091
Realised gains/(losses)	512	(27,122)	(29,865)	-	(56,475)
Fair value gains/(losses)	145	(11,207)	14,663	-	3,601
Fees and commission income	-	8,865	-	(7,684)	1,181
Other revenue	19,060	224,300	722	(7,684)	236,398
Gross benefits and claims paid	-	(627,716)	(63,266)	-	(690,982)
Claims ceded to reinsurers	-	29,551	-	-	29,551
Gross change to contract liabilities	-	(342,276)	(82,140)	-	(424,416)
Change in contract liabilities ceded to reinsurers	-	(21)	-	-	(21)
Net claims	-	(940,462)	(145,406)	-	(1,085,868)
Fees and commission expense	(115)	(191,280)	(5,497)	7,684	(189,208)
Management expenses	(71)	(65,751)	(2,001)	-	(67,823)
Other operating expenses-net	(16,315)	3,701	(1,786)	-	(14,400)
Other expenses	(16,501)	(253,330)	(9,284)	7,684	(271,431)
Finance costs	(11,431)	-	-	-	(11,431)
(Loss)/profit before taxation	(8,872)	131,679	1,826	-	124,633
Taxation	(10,850)	(15,457)	(1,826)	-	(28,133)
Net (loss)/profit for the financial period	(19,722)	116,222	-	-	96,500

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**11 . 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:

	31.12.2016	30.6.2016
	RM'000	RM'000
<u>Statement of financial position</u>		
Assets		
Financial assets - FVTPL financial assets/ total assets	3,450	3,757
Liabilities		
Deferred tax liabilities	(20)	(32)
Tax payables	(12)	(10)
Total liabilities	(32)	(42)
Net asset value	3,482	3,799
	6 months	6 months
	ended	ended
	31.12.2016	31.12.2015
	RM'000	RM'000
<u>Statement of comprehensive income</u>		
Realised losses	(30)	(43)
Fair value gains	153	107
Other revenue	123	64
Gross benefits and claims paid	(430)	(245)
Gross change to contract liabilities	317	186
Net claims	(113)	(59)
Profit before taxation	10	5
Taxation	(10)	(5)
Net profit for the financial period	-	-

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**12 . 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.

13 . CHANGES IN ESTIMATE

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

14 . SEASONAL OR CYCLICAL FACTORS

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

15 . CHANGES IN CONTIGENT LIABILITIES OR CONTIGENT ASSETS

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

16 . DEBTS AND EQUITY SECURITIES

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

17 . DIVIDEND PAID

During the half-year ended 31 December 2016, a final single-tier dividend of 43.50% on 200,000,000 ordinary shares in respect of financial year ended 30 June 2016, amounting to RM87 million was paid on 28 October 2016.

18 . RELATED PARTY TRANSACTIONS

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

HONG LEONG ASSURANCE BERHAD

(Company No.94613-X)

(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

19 . SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

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

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

20 . 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.