

**Prudential Assurance
Malaysia Berhad**

(Company No. 198301012262 (107655-U))
(Incorporated in Malaysia)

**Unaudited Condensed Interim
Financial Statements
For The Half-Year Ended
30 June 2023
(In Ringgit Malaysia)**

Prudential Assurance Malaysia Berhad

(Company No. 198301012262 (107655-U))

(Incorporated in Malaysia)

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Prudential Assurance Malaysia Berhad

(Company No. 198301012262 (107655-U))
(Incorporated in Malaysia)

Condensed statement of financial position As at 30 June 2023 (Unaudited)

	Note	30.06.2023	31.12.2022	01.01.2022
		RM'000	Restated RM'000	Restated RM'000
Assets				
Property and equipment		176,876	195,200	233,568
Right-of-use assets		140,523	141,595	157,468
Intangible assets		324,786	316,291	307,930
Investments, including derivatives	9	41,692,019	40,882,242	40,243,097
Insurance contract assets	10	35,852	57,335	12,731
Reinsurance contract assets	11	114,185	96,784	97,225
Other receivables		757,230	627,567	268,644
Deferred tax assets		25,546	-	-
Tax recoverable		137,092	49,474	39,588
Cash and bank balances		96,952	70,745	77,743
		<u>43,501,061</u>	<u>42,437,233</u>	<u>41,437,994</u>
Assets classified as held for sale		-	-	296
Total assets		<u>43,501,061</u>	<u>42,437,233</u>	<u>41,438,290</u>
Equity, policyholders' funds and liabilities				
Share capital		100,000	100,000	100,000
Retained earnings		<u>6,193,212</u>	<u>5,997,757</u>	<u>5,955,075</u>
Total equity		<u>6,293,212</u>	<u>6,097,757</u>	<u>6,055,075</u>
Insurance contract liabilities	10	34,411,365	33,724,372	32,764,208
Reinsurance contract liabilities	11	196,384	178,479	147,480
Deferred tax liabilities		1,816,197	1,651,967	1,722,413
Derivatives		13,150	-	-
Lease liabilities		148,168	148,541	165,453
Tax payable		21,666	39,383	68,420
Other payables and provisions		600,919	596,734	515,241
Total liabilities		<u>37,207,849</u>	<u>36,339,476</u>	<u>35,383,215</u>
Total equity, policyholders' funds and liabilities		<u>43,501,061</u>	<u>42,437,233</u>	<u>41,438,290</u>

The accompanying notes are an integral part of these condensed interim financial statements.

Prudential Assurance Malaysia Berhad

(Company No. 198301012262 (107655-U))

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Condensed statement of profit or loss and other comprehensive income For the 6 months period ended 30 June 2023 (Unaudited)

	6 months period ended 30.06.2023	6 months period ended 30.06.2022
	RM'000	Restated RM'000
Insurance revenue	2,443,138	2,178,970
Insurance service expense for insurance contract issued	(1,987,642)	(1,719,413)
Net expense from reinsurance contracts held	<u>(16,846)</u>	<u>(27,922)</u>
Insurance service result	<u>438,650</u>	<u>431,635</u>
Investment income/(expense)	608,353	(1,660,147)
Total insurance finance (expense)/income	(416,775)	1,141,716
Total reinsurance finance (expense)/income	<u>(1,462)</u>	<u>25</u>
Net investment result	<u>190,116</u>	<u>(518,406)</u>
Other income	90,054	88,799
Other expenditure	<u>(73,424)</u>	<u>(86,784)</u>
Profit/(Loss) before taxation	645,396	(84,756)
Taxation	<u>(177,622)</u>	<u>131,388</u>
Net profit/Total comprehensive income for the period	<u>467,774</u>	<u>46,632</u>
Earnings per share (sen)		
Basic	<u>467.77</u>	<u>46.63</u>

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Condensed statement of changes in equity For the 6 months period ended 30 June 2023 (Unaudited)

	Note	Share capital RM'000	Retained earnings		Total equity RM'000	
			Non-Distributable** RM'000	Distributable RM'000		Total RM'000
At 31 December 2022, as previously reported		100,000	1,096,480	825,433	1,921,913	2,021,913
- effect of adopting MFRS 17*		-	3,979,301	96,543	4,075,844	4,075,844
At 1 January 2023, Restated		100,000	5,075,781	921,976	5,997,757	6,097,757
Net profit/Total comprehensive income for the period		-	472,316	(4,542)	467,774	467,774
Group share-based payment transaction***		-	-	(1,319)	(1,319)	(1,319)
Dividends paid during the period	14	-	-	(271,000)	(271,000)	(271,000)
At 30 June 2023		100,000	5,548,097	645,115	6,193,212	6,293,212

* There is no change to the equity due to adopting MFRS 9.

** Non-distributable retained earnings comprise of the shareholders' share of participating life fund's estate and the surplus from participating and non-participating life insurance business, net of deferred tax. This amount is only distributable upon the annual recommendation by the Appointed Actuary to transfer a requisite amount of the Life fund surplus to the shareholder's fund.

*** Group share-based payment transaction is the recognition of the settlement of share option scheme granted by the ultimate holding company, Prudential plc, to the eligible agents.

The accompanying notes are an integral part of these condensed interim financial statements.

Prudential Assurance Malaysia Berhad

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Condensed statement of changes in equity For the 6 months period ended 30 June 2023 (Unaudited) (continued)

	Note	Share capital RM'000	Retained earnings			Total equity RM'000
			Non-Distributable** RM'000	Distributable RM'000	Total RM'000	
At 31 December 2021, as previously reported		100,000	1,087,358	915,794	2,003,152	2,103,152
- effect of adopting MFRS 17*		-	3,937,252	14,671	3,951,923	3,951,923
At 1 January 2022, Restated		100,000	5,024,610	930,465	5,955,075	6,055,075
Net profit/Total comprehensive income for the period		-	56,326	(9,694)	46,632	46,632
Group share-based payment transaction***		-	-	3,471	3,471	3,471
Dividends paid during the period	14	-	-	(265,000)	(265,000)	(265,000)
At 30 June 2022		100,000	5,080,936	659,242	5,740,178	5,840,178

* There is no change to the equity due to adopting MFRS 9.

** Non-distributable retained earnings comprise of the shareholders' share of participating life fund's estate and the surplus from participating and non-participating life insurance business, net of deferred tax. This amount is only distributable upon the annual recommendation by the Appointed Actuary to transfer a requisite amount of the Life fund surplus to the shareholder's fund.

*** Group share-based payment transaction is the recognition of the settlement of share option scheme granted by the ultimate holding company, Prudential plc, to the eligible agents.

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Condensed statement of cash flows

For the 6 months period ended 30 June 2023 (Unaudited)

	6 months period ended 30.06.2023	6 months period ended 30.06.2022 Restated
	RM'000	RM'000
Cash flows from operating activities		
Profit/(Loss) before taxation	645,396	(84,756)
Adjustments for:		
Gain on disposal of property and equipment	(197)	-
Gain on disposal of assets classified as held for sale	-	(2,706)
Fair value loss on investments	228,210	2,338,770
Depreciation of property and equipment	8,787	9,049
Depreciation of right-of-use assets	16,536	16,868
Amortisation of intangible assets	22,957	21,427
Property and equipment written off	145	65
Interest expense on lease liabilities	3,224	4,311
Operating profit before changes in working capital	925,058	2,303,028
Changes in operating assets and liabilities:		
Investments	(1,024,837)	(1,063,050)
Insurance contract assets	21,483	(17,578)
Reinsurance contract assets	(17,401)	7,236
Other receivables	(129,663)	(156,045)
Insurance contract liabilities	686,993	(929,979)
Reinsurance contract liabilities	17,905	15,728
Other payables and provisions	2,866	201,417
Cash generated from operations	482,404	360,757
Tax paid	(144,273)	(114,905)
Net cash from operating activities	338,131	245,852
Cash flows from investing activities		
Acquisition of property and equipment	(22,052)	(10,508)
Acquisition of intangible assets	(8)	(2,215)
Proceeds from disposal of property and equipment	197	-
Proceeds from disposal of assets classified as held for sale	-	3,002
Net cash used in investing activities	(21,863)	(9,721)
Cash flows from financing activities		
Payment of lease liabilities	(15,837)	(15,951)
Interest paid on lease liabilities	(3,224)	(4,311)
Dividend paid to owners of the Company	(271,000)	(265,000)
Net cash used in financing activities	(290,061)	(285,262)
Net increase/(decrease) in cash and bank balances	26,207	(49,131)
Cash and bank balances at beginning of period	70,745	77,743
Cash and bank balances at end of period	96,952	28,612

The accompanying notes are an integral part of these condensed interim financial statements.

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Notes to the condensed interim financial statements

1. Basis of preparation

Statement of compliance

These condensed interim financial statements of the Company are unaudited and have been prepared in accordance with Malaysia Financial Reporting Standards (“MFRS”) 134, *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”) and International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2022.

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 31 December 2022, except for the adoption of the following:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 17, *Insurance Contracts* - “*Initial Application of MFRS 17 and MFRS 9 – Comparative Information*”
- Amendments to MFRS 101, *Presentation of Financial Statements – Non-current Liabilities with Covenants*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure of Accounting Policies*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*
- Amendments to MFRS 112, *Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to MFRS 112, *Income Taxes – International Tax Reform – Pillar Two Model Rules*

The following are accounting standards, interpretations and amendments that have been issued by the MASB but have not been adopted by the Company:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2024

- Amendment to MFRS 16, *Leases – Lease Liability in a Sale and Leaseback*
- Amendment to MFRS 101, *Presentation of Financial Statements – Non-current Liabilities with Covenants and Classification of Liabilities as Current or Non-current*
- Amendments to MFRS 7, *Financial Instruments: Disclosures* and MFRS 107, *Statement of Cash Flows – Supplier Finance Arrangements*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2025

- Amendment to MFRS 121, *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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1. Basis of preparation (continued)

Statement of compliance (continued)

The initial application of the abovementioned amendments did not have any material financial impact to the current and prior periods financial statements upon their first adoption, except as mentioned below:

The Company adopted MFRS 17 *Insurance Contracts* and MFRS 9 *Financial Instruments*, including any consequential amendments to other standards, from 1 January 2023.

MFRS 17, 'Insurance contracts'

MFRS 17 introduces significant changes to the way insurance and reinsurance contracts are accounted for, albeit the scope of MFRS 17 and MFRS 4 is very similar. Therefore, all the Company's insurance and reinsurance contracts held accounted under MFRS 4 are now accounted under MFRS 17.

MFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. MFRS 17 replaces this with a new measurement model that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts held.

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue) and each annual cohort into groups based on the profitability of contracts. Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued.

When determining "similar risks", the Company does not divide risks within a contract, e.g. riders sold under a single contract would not be split by risk type. The Company have therefore identified three broad categories of risks referred to as "dominant" risks, namely, protection, investment and to a less material extent longevity. All business contained within ring-fenced fund will be consider as "managed together". For other business, which is not contained within a ring-fenced fund, is further segregated based on how the assets are managed and how the business being administered.

Under MFRS 17 groups of contracts are measured on initial recognition as the total of:

- a) Fulfilment cash flows, comprising the best estimate of the present value of future cash flows within the contract boundary that are expected to arise and an explicit risk adjustment for non-financial risk; and
- b) A contractual service margin ("CSM") that represents the deferral of any day-one gains arising on initial recognition.

Day-one losses, any subsequent losses and reversal of those losses arising from groups of insurance contracts are recognised directly in the income statement. For groups of reinsurance contracts held, any net gain or loss at initial recognition is recognised as CSM unless the net cost of purchasing reinsurance relates to past events, in which case such net cost is recognised immediately in the income statement.

Under MFRS 17 'Insurance Contracts' are measured under the General Measurement Model ("GMM"), Variable Fee Approach ("VFA") or Premium Allocation Approach ("PAA"). The Company predominantly uses the VFA and GMM, depending on the specific characteristics of the insurance contracts. The Company makes very limited use of the PAA for some small portfolios of short duration contracts. Reinsurance contracts held are measured under the GMM and PAA.

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1. Basis of preparation (continued)

Statement of compliance (continued)

MFRS 17, 'Insurance contracts' (continued)

Approximately 73 per cent of the CSM at transition was calculated under the GMM and includes the Company's non-participating protection products and unit-linked products with a high proportion of protection riders. The remaining 27 per cent of the CSM at transition was calculated under the VFA and relates to the Company's participating products and unit-linked products with a low proportion of protection riders and/or high savings elements.

The fulfilment cash flows are updated each reporting date to reflect current conditions. For contracts with direct participating features which are accounted for under the VFA, the CSM represents the variable fee to shareholders and it is adjusted to reflect the effect of changes in economics as well as experience variances and/or assumptions changes that relate to future services. For contracts accounted for under GMM, the CSM is accreted using the locked-in discount rates and only adjusted to reflect the effect of non-economic experience variances and/or assumptions changes that relate to future services. The adjustments to the CSM are determined using the locked-in discount rates. Further information on the subsequent measurement of the CSM is contained in the note – critical accounting policies, estimates and judgements.

MFRS 17 is applied retrospectively unless impractical to do so. The effect of adopting MFRS 17 retrospectively adjusts shareholders' equity as at the date of transition of 1 January 2022. At the transition date, the opening balance sheet for MFRS 17 is established, as set out later in the note – effect of adoption of MFRS 17 and MFRS 9.

With the adoption of MFRS 17, certain line items in the Company's statement of financial position have been replaced with new line items. For example, the Company now presents separately the carrying amount of portfolios of:

- Insurance contracts issued that are assets;
- Insurance contracts issued that are liabilities;
- Reinsurance contracts held that are assets; and
- Reinsurance contracts held that are liabilities.

Under MFRS 17, the measurement of a group of insurance contracts requires inclusion of all the future cash flows within the boundary of each contract i.e. on the basis of all the cash flows expected to arise from fulfilling the contracts. As a result, all insurance and reinsurance related receivable and payable balances that were previously separately presented on the statement of financial position are now in effect included within the fulfilment cash flows (part of insurance and reinsurance contract balances) under MFRS 17.

Applying the same MFRS 17 measurement principles, policy loans related cash flows including any accrued interest income are also included within the fulfilment cash flows of the associated group of insurance contracts.

The unallocated surplus of Participating Funds, which represents the surplus which have yet to be declared to Shareholders will be recognised as part of the Non-distributable Retained Earnings.

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1. Basis of preparation (continued)

Statement of compliance (continued)

MFRS 17, 'Insurance contracts' (continued)

Further, the line items in the statement of profit and loss and other comprehensive income have been changed significantly compared with reporting under MFRS 4. Previously the Company reported the following line items: Gross premiums earned, Premiums ceded to reinsurers, Gross benefits and claims paid, Claims ceded to reinsurers, Gross change in contract liabilities and Change in contract liabilities ceded to reinsurers. Instead, MFRS 17 requires separate presentation of line items as follows:

- Insurance revenue;
- Insurance service expenses;
- Net income/(expense) from reinsurance contracts held; and
- Net insurance finance income/(expenses).

Approach to transition to MFRS 17

Transition refers to the determination of the opening balance sheet for the first year of comparative information presented under MFRS 17 (i.e. as at 1 January 2022). The future cash flows and risk adjustment are measured on a current basis in the same manner as they would be calculated for subsequent measurement. The key component of transition is therefore the determination of the CSM.

The standard requires MFRS 17 to be applied retrospectively (the 'Full Retrospective Approach') unless impracticable. If a fully retrospective approach is impracticable there is an option to choose either a Modified Retrospective Approach or a Fair Value Approach. If reasonable and supportable information necessary to apply the Modified Retrospective Approach is not available, the Fair Value Approach must be applied.

The contractual service margin of the groups of insurance contracts transitioned under retrospective approaches (i.e. Full Retrospective Approach and Modified Retrospective Approach) has been calculated as if the Company had been prepared annual financial statements before the transition date (i.e. transition CSM has been measured using a year-to-date approach).

(a) Full Retrospective Approach ("FRA")

Under the FRA, each group of insurance contracts has been identified, recognised and measured as if MFRS 17 had always applied. The CSM was calculated at initial recognition of a group of insurance contracts based on the facts and circumstances at that time (i.e. without use of hindsight). This CSM was then rolled forward to the transition date in line with the requirements of the standard. The Company had derecognised any existing balances that would not exist had MFRS17 been applied retrospectively and recognised any resulting net differences in equity.

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1. Basis of preparation (continued)

Statement of compliance (continued)

Approach to transition to MFRS 17 (continued)

(b) Modified Retrospective Approach (“MRA”)

The objective of the MRA is to achieve the closest possible outcome to FRA using reasonable and supportable information without undue cost and effort. A number of specific modifications are permitted under the MRA. The Company has adopted the following modifications:

- To use earliest available information to identify insurance contract groups; and
- To use earliest available information to assess eligibility for the variable fee approach.

(i) General Measurement Model (“GMM”)

Under the MRA for GMM business, the cash flows at the date of initial recognition of a group of insurance contracts have been estimated as the cash flows at the earliest available date (i.e. the first year when the FRA is practicable, referred to as the “earlier date”), adjusted by the cash flows that are known to have occurred between these two dates. A number of further specific modifications are permitted. The Company has adopted the following modifications:

- To estimate the risk adjustment at the date of initial recognition as the risk adjustment at the earlier date adjusted by the expected release of risk before that date based on the risk adjustment release pattern for similar contracts;
- To estimate CSM amortisation in line with run-off of the coverage units; and
- If there is a loss component at initial recognition, to estimate the amount allocated to the loss component before the transition date using a systematic allocation consistent with the modifications adopted above.

Discount rates at the date of initial recognition were determined using observable market data at that date.

(ii) Variable Fee Approach (“VFA”)

Under the MRA for VFA business, the CSM at the transition date for a group of insurance contracts has been determined as:

- The total fair value of the underlying items at that date; minus
- The fulfilment cash flows at that date; plus or minus
- An adjustment for:
 - Amounts charged to policyholders before that date;
 - Amounts paid before that date not varying with underlying items;
 - The change in the risk adjustment caused by the release from risk before that date; and minus
- An estimate of the amounts that would have been recognised in profit or loss for services provided before the transition date by comparing the remaining coverage units at the transition date with the coverage units provided under the group of insurance contracts before the transition date.

In implementing this approach, amounts charged to policyholders, amounts paid not varying with underlying items and coverage units have been adjusted for time value of money.

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1. Basis of preparation (continued)

Statement of compliance (continued)

Approach to transition to MFRS 17 (continued)

(c) Fair Value Approach (“FVA”)

The insurance contracts of the Company under the FVA generally represent groups of contracts that were written many years ago where suitable historical information required to apply the retrospective transition approaches is no longer practicably available.

Under the FVA, the CSM at the transition date is the difference between the fair value of the insurance contracts, determined in accordance with MFRS 13 ‘Fair Value Measurement’, and the fulfilment cash flows at that date.

The fair value of insurance contracts has been determined as the present value of best estimate expected future cash flows plus an additional amount representing compensation a market participant would require to enter into a transaction to transfer the liability associated with the insurance contracts at the transition date. The return required by a market participant includes an allowance for both financial risk and uncertainty in non-financial risk.

The fair value has been based on the same scope of cash flows as are included in the calculation of the best estimate liability. In particular, the same contract boundaries are assumed in the calculation of the fair value and best estimate liability. However, the measurement of those cash flows need not be the same.

A number of specific modifications are permitted under the FVA. The Company has adopted the following modifications:

- To use earliest available information to identify groups of insurance contracts;
- To use earliest available information to assess eligibility for the VFA; and
- To group annual cohorts of business.

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1. Basis of preparation (continued)

Statement of compliance (continued)

MFRS 9, 'Financial Instruments'

MFRS 9 replaced MFRS 139 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018. The Company met the eligibility criteria, under the amendments to MFRS 4 to apply the temporary exemption from MFRS 9, deferring the initial application date of MFRS 9 to align with the initial application of MFRS 17 on 1 January 2023.

The adoption of MFRS 9 has affected the following three areas:

The classification and the measurement of financial assets and liabilities

MFRS 9 redefines the classification of financial assets based on the way in which the assets are managed in order to generate cash flows and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'). Financial assets are classified into one of the following categories: amortised cost and fair value through profit or loss ("FVTPL").

The calculation of the impairment charge relevant for financial assets held at amortised cost

A new impairment model based on an expected credit loss approach replaced the incurred loss impairment model under MFRS 139, resulting in earlier recognition of credit losses compared with MFRS 139. This aspect is the most complex area of MFRS 9 and involves significant judgements and estimates.

However, majority of the financial investments of the Company are held at FVTPL to which these requirements do not apply. Accordingly, no significant amount of additional impairment was recognised by the Company under the expected credit loss approach as a result of the adoption of MFRS 9.

The hedge accounting requirements which are more closely aligned with the risk management activities

The Company has not applied hedge accounting treatment under MFRS 139 and therefore, there is no impact in this area for the Company upon the adoption of MFRS 9.

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1. Basis of preparation (continued)

Statement of compliance (continued)

Effect of adoption of MFRS 17 and MFRS 9

The adoption of MFRS 17 has significant changes to the accounting for insurance and reinsurance contracts, as discussed above. The Company's approach to transition to MFRS 17 is set out in the preceding section. The Company has restated the 2022 comparative amounts and presented a restated statement of financial position as at 1 January 2022.

The implementation of MFRS 9 has an insignificant impact on the Company's financial statements. As permitted by MFRS 9, the Company has not restated the comparatives on initial application of the standard but the Company is taking advantage of the classification overlay as permitted by the Amendment to MFRS 17, 'Initial Application of MFRS 17 and MFRS 9 – Comparative Information' issued in December 2021.

The following table reconciles the carrying amounts of investments under MFRS 139 to MFRS 9 on transition as of 1 January 2023.

Investments	Original Classif- ication under MFRS 139	New Classif- ication under MFRS 9	31 December 2022 MFRS139 RM'000	Remeas- urement/ Reclassif- ication RM'000	1 January 2023 MFRS 9 RM'000
Malaysian government securities ¹	FVTPL	FVTPL	3,912,280	-	3,912,280
Debt securities ¹	FVTPL	FVTPL	13,022,640	-	13,022,640
Equity securities ²	FVTPL	FVTPL	15,110,118	-	15,110,118
Unit and property trust funds ^{2,3}	FVTPL	FVTPL	1,300,364	(1,876)	1,298,488
Foreign managed funds ²	FVTPL	FVTPL	3,195,431	-	3,195,431
Investment in structured products ²	FVTPL	FVTPL	5,506	-	5,506
Derivatives ⁴	FVTPL	FVTPL	8,954	-	8,954
Loans ^{5,6}	LAR	AC	610,005	(608,603)	1,402
Deposits with financial institutions ⁵	LAR	AC	4,327,423	-	4,327,423
			<u>41,492,721</u>	<u>(610,479)</u>	<u>40,882,242</u>

Notes

¹ Malaysia government securities and debt securities remains as FVTPL in accordance with business model to trade the asset as part and parcel of the Company's investment portfolio instead of holding to maturity.

² Equities securities, unit and property trust funds, foreign managed funds and investment in structured products are treated as FVTPL as the Company's business model is to hold for trading.

³ The reclassification is related to seed money being reclassified to other receivables for consistency purpose.

⁴ Derivatives remains as FVTPL and the Company has not opted for hedge accounting options.

⁵ Loans and deposits with financial institutions are held to maturity. These assets pass the contractual cash flow characteristics test ("SPPI test") and are measured as amortised cost. Policy loan that previously reported as part of loan and receivable are covered under MFRS 17, as part of insurance contract liabilities or assets.

⁶ Reclassifications to insurance contract liabilities due to amount attributable to fulfilling of insurance contracts.

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1. Basis of preparation (continued)

Statement of compliance (continued)

Effect of adoption of MFRS 17 and MFRS 9 (continued)

The adoption of MFRS 17 and MFRS 9 resulted in the following effects to the condensed statement of financial position.

	At 31 Dec 2021 (as reported under MFRS 4) RM'000	Effects of adoption of MFRS 17 RM'000		At 1 Jan 2022 (as restated under MFRS 17) RM'000
		Presentation changes ^{note (i)}	Measurement changes ^{note (ii)}	
Assets				
Property and equipment	233,568	-	-	233,568
Right-of-use assets	157,468	-	-	157,468
Intangible assets	307,930	-	-	307,930
Investments, including derivatives	40,864,482	(621,385)	-	40,243,097
Insurance contract assets	-	-	12,731	12,731
Reinsurance contract assets	-	-	97,225	97,225
Insurance receivables	134,025	(134,025)	-	-
Other receivables	371,896	(103,252)	-	268,644
Tax recoverable	39,588	-	-	39,588
Cash and bank balances	77,743	-	-	77,743
Assets classified as held for sale	296	-	-	296
Total assets	42,186,996	(858,662)	109,956	41,438,290
Equity, policyholders' funds and liabilities				
Share capital	100,000	-	-	100,000
Retained earnings	2,003,152	-	3,951,923	5,955,075
Total equity	2,103,152	-	3,951,923	6,055,075
Liabilities				
Insurance contract liabilities *	37,978,468	11,544	(5,225,804)	32,764,208
Reinsurance contract liabilities	11,388	-	136,092	147,480
Deferred tax liabilities	474,668	-	1,247,745	1,722,413
Lease liabilities	165,453	-	-	165,453
Insurance payables	414,621	(414,621)	-	-
Tax payable	68,420	-	-	68,420
Other payables and provisions	970,826	(455,585)	-	515,241
Total liabilities	40,083,844	(858,662)	(3,841,967)	35,383,215
Total equity, policyholders' funds and liabilities	42,186,996	(858,662)	109,956	41,438,290

*Included within insurance contract liabilities at 31 December 2021 are unallocated surplus of Participating Funds under MFRS 4.

Prudential Assurance Malaysia Berhad

(Company No. 198301012262 (107655-U))

(Incorporated in Malaysia)

1. Basis of preparation (continued)

Statement of compliance (continued)

Effect of adoption of MFRS 17 and MFRS 9 (continued)

The adoption of MFRS 17 and MFRS 9 resulted in the following effects to the condensed statement of financial position. (continued)

Notes

(i) Presentation changes

The presentation changes as shown in the table above principally arise from the following effects of the adoption of MFRS 17:

a) Inclusion of insurance and reinsurance related receivable and payable balances within MFRS 17 insurance and reinsurance contract liabilities/assets

Under MFRS 17, the measurement of a group of insurance contracts requires inclusion of all the future cash flows within the boundary of each contract i.e. on the basis of all the cash flows expected to arise from fulfilling the contracts. As a result, all insurance and reinsurance related receivable and payable balances that were previously separately presented on the statement of financial position are included within the fulfilment cash flows (part of insurance and reinsurance contract balances) under MFRS 17.

b) Policy loans

Applying the same MFRS 17 measurement principles described above, policy loans related cash flows including any accrued interest income (previously included in 'Other Receivables') are also included within the fulfilment cash flows of the associated group of insurance contracts.

(ii) Measurement changes

The changes to various statement of financial position line items as shown in the table above principally reflect the following measurement differences arising from the adoption of MFRS 17:

a) Insurance and reinsurance contract assets and liabilities

The adjustments represent insurance and reinsurance contract measurement differences between MFRS 4 and MFRS 17, which primarily relate to the following effects:

- the establishment of a CSM under MFRS 17 in accordance with the transition requirements, intended to represent the unamortised amount of expected future profit deferred upon initial recognition of insurance contract liabilities for all in-force contracts;
- the establishment of an explicit risk adjustment for non-financial risk under MFRS 17;
- release of prudence margin as accounted under MFRS 4 policyholder liabilities; and
- the change in treatment of the unallocated surplus of participating funds such that the shareholders' share is recognised in shareholders' equity in addition to the effects of measurement differences affecting the valuation.

b) Deferred tax assets and liabilities

Other than the presentation change explained above, deferred tax balances are adjusted to reflect the deferred tax effects of the measurement adjustments arising from transition to MFRS 17 described above. Deferred tax continues to be measured at the tax rates i.e. 24% that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements

(a) MFRS 17, 'Insurance contracts'

Grouping of contracts

Under MFRS 17, insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, where each portfolio comprise group of contracts with similar risks which are managed together. The portfolios are further divided based on the profitability of contracts into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remaining contracts. The insurance contracts are also grouped into annual cohorts (i.e. by year of issue). Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued.

When determining "similar risks", the Company does not divide risks within a contract, e.g. riders sold under a single contract would not be split by risk type. The Company has therefore identified three broad categories of risks referred to as "dominant" risks, namely, protection, investment and longevity. All business contained within ring-fenced fund will be considered as managed together. For other business, which is not contained within a ring-fenced fund, will be further segregate based on how their assets are managed and how the business being administered.

Under MFRS 17, insurance contracts are measured under the GMM, VFA or PAA. The Company predominantly uses the VFA and GMM, depending on the specific characteristics of the insurance contracts.

GMM is a mandatory measurement model under MFRS 17 whilst VFA is a modification of GMM to accommodate direct participating features contracts. An insurance contract has a direct participation feature if the following requirements are all met:

- (i) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- (ii) the Company expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- (iii) the Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

The following key judgements have been made in assessing VFA eligibility:

Definition of substantial	The term substantial is interpreted to mean greater than 50 per cent.
Contractual terms	In some circumstances contractual terms are implied by customary business practices.
Granularity of assessment	The assessment has been carried out at a contract level. However, to the extent insurance contracts in a group affects the cash flows to policyholders of contracts in other groups (referred to as "mutualisation"), eligibility for the VFA has been assessed at the level at which such mutualisation occurs (e.g., fund level).
Calculation basis	VFA eligibility assessments have been performed on a basis consistent with how the Company measures its realistic expectations, for example during pricing, monitoring or setting returns to policyholders.

The Company makes very limited use of the PAA for some small portfolios of short duration contracts. Reinsurance contracts held are measured under the GMM and PAA.

MFRS 17 requires liabilities for insurance contracts to be measured as the total of:

- fulfilment cash flows, comprising the best estimate of the present value of future cash flows within the contract boundary that are expected to arise and an explicit risk adjustment for non-financial risk; and
- a CSM that represents the deferral of any day-one gains arising on initial recognition.

Separating components

At inception, the Company is required to separate distinct investment components, distinct services other than insurance contract services and embedded derivatives from an insurance contract and account for them as if they were stand-alone contracts.

A contract has an investment component if there is an amount that the contract requires the entity to repay to the policyholder in all circumstances that have commercial substance. Surrender value, net of policy loans and surrender charges, is accounted as the investment component of a contract for participating and non-participating contracts. For Investment Linked and Universal Life products, the surrender value is based on the total units or account value available.

There are a small number of products that do not have surrender value, and the investment components of these contracts are determined on a case-by-case basis. An investment component is distinct if and only if:

- (a) the insurance and investment components are not highly interrelated, and
- (b) a contract with equivalent terms is, or could be, sold separately in the same market or jurisdiction.

Asset management services for investments held under an insurance contract are not separated.

The investment components are not included in insurance revenue and insurance service expenses under MFRS 17.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

Determination of fulfilment cashflows

The process of determining the present value of future cashflows involves a number of estimates and judgements, which are set out below.

Estimates of future cash flows	The Company's objective in estimating future cash flows is to determine the expected value over a number of economic scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value.
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The Company's process for estimating future cash flows incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the Company's view of current conditions at the reporting date and estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Company takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation and regulations that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation or regulations is substantively enacted.

Cash flows within the boundary of a contract (the Company's accounting policy on contract boundary is given below) relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include future premium receipts, payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Judgements and assumptions are applied by the Company in arriving at an estimation of future cash flows. There is a wide range of economic and operating assumptions that are used as inputs in the future cash flows estimation process including, but not limited to, operating assumptions such as morbidity, mortality, persistency and expenses, and economic assumptions such as risk free rates and illiquidity premium.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

<p>Estimates of future cash flows (continued)</p>	<p>In relation to reinsurance contracts held, the probability weighted estimates of the present value of future cash flows includes the potential credit losses and losses from other disputes to reflect the non-performance risk of the reinsurers.</p>
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<p>Expense assumptions used in future cash flow estimation</p>	<p>The Company projects estimates of future expenses relating to the fulfilment of contracts within the scope of MFRS 17 using current expense levels adjusted for inflation. Costs that are incurred in fulfilling the contracts include, but are not limited to claims handling costs, policy administration expenses, investment management expenses, income tax and other costs specifically chargeable to the policyholders under the terms of the contracts. Expenses included in estimated future cash flows comprise of expenses directly attributable to the Company's contracts, including an allocation of fixed and variable overheads.</p>
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Investment management expenses in relation to the management of the assets backing policyholder liabilities are included in the fulfilment cash flows for business using the VFA model, indirect participating business using the general model and general model non-participating business where the Company performs investment management activities to enhance benefits from insurance coverage for policyholders.

Most of the costs incurred by the insurance entities within the Company are considered to be incurred for the purpose of selling and fulfilling insurance contracts and are hence treated as attributable expenses. Cash flows that are not directly attributable to a portfolio of insurance contracts, such as cost for corporate social responsibility ("CSR"), are recognised in other operating expenses as incurred.

<p>Demographic assumptions used in future cash flow estimation</p>	<p>The Company applies judgement in determining the assumptions to be applied to estimate the future cash inflows and outflows in the measurement of the insurance contract liabilities. These assumptions are consistent with those used in other metrics such as European Embedded Value ("EEV") reporting.</p>
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Assumptions about mortality, morbidity and policyholder behaviour that are used in estimating future cash flows are developed by product type, reflecting recent experience and the profile of policyholders within groups of insurance contracts.

Mortality and morbidity assumptions are generally developed using recent experience and other relevant inputs. Experience is monitored through regular studies, the results of which are reflected in both the pricing of new products and the measurement of existing contracts.

The Company derives assumptions for lapse and surrender rates and other policyholder behaviour based on the Company's own experience and any observable trends, to arrive at probability-weighted assumptions for each major product line.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

Policyholder benefits	<p>The assumptions used to project the cash flows also reflect the management's actions and decisions over the duration of the projection, including the time and any expenses incurred in taking those actions.</p> <p>For participating contracts, estimated future claim payments include bonuses paid to policyholders determined by reference to the relevant profit sharing arrangement. Asset shares of these contracts are used to determine payments to policyholders.</p> <p>Where cash flows from one group of insurance contracts affect, or are affected by, cash flows in other groups of contracts (eg for participating contracts), the fulfilment cash flows for a group include payments arising from the terms of existing contracts to policyholders in other groups and exclude payments to policyholders in the Company that have been included in the fulfilment cash flows of another group.</p>
Insurance acquisition cash flows	<p>Insurance acquisition cash flows arise from the cost of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of contracts to which the group belongs. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.</p> <p>Insurance acquisition cash flows that are directly attributable to a group of insurance contracts (e.g. non-refundable commissions paid on issuance of a contract) are allocated to that group and to the groups that will include renewals of those contracts.</p> <p>Insurance acquisition cash flows arising before the recognition of the related group of insurance contracts are recognised as an asset when they are paid or when a liability is required to be recognised under a standard other than MFRS 17. Such an asset is recognised for each group of insurance contracts to which the insurance acquisition cash flows are allocated. The asset for insurance acquisition cash flow is derecognised from the statement of financial position when the insurance acquisition cash flows are included in the initial measurement of the CSM of the related group of insurance contracts.</p>
Initial recognition and contract boundaries	<p>It is required to determine the point of initial recognition and the contract boundary of the insurance contracts in order to measure its future cash flows.</p> <p>The point of initial recognition of a group of insurance contracts issued is from the earliest of the following:</p> <ol style="list-style-type: none"> a) The beginning of the coverage period of the group of contracts; b) The date when first payment from policyholder in the group becomes due; and c) For a group of onerous contracts, as soon as facts and circumstances indicate that the group is onerous.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

Initial recognition and contract boundaries (continued)	<p>The contract boundary defines which future cash flows are included in the measurement of a contract. The end of the contract boundary is considered to be at the point when the Company no longer has substantive rights and obligations under the insurance contract to provide services or compel the policyholder to pay premiums.</p> <p>The contract boundary is assessed at inception and then reassessed only when there are changes in features or circumstances that alter the commercial substance of the contract or changes the products within a portfolio. The reassessment of the contract boundary for any changes is performed at the end of each reporting period.</p> <p>The contract boundary of the insurance contracts issued by the Company generally begins on the insurance contract's coverage start date.</p> <p>For most contracts issued by the Company, there is little judgement involved in determining the contract boundary for contracts with non-guaranteed renewability as the Company has practical ability to terminate the contracts or refuse renewal of the contracts.</p> <p>For contracts where the renewability is guaranteed and the premiums and/or charges are not guaranteed, more judgement is involved. When determining the boundary for these contracts various factors are taken into consideration by the Company such as the Company's ability to fully reprice the respective contract and how such contracts are managed.</p> <p>Where riders attach to and are not separated from a base contract, the contract boundary is determined based on the component of the contract which has the longest contract boundary.</p> <p>Future cash flows relating to riders which are not purchased at the inception of the base contract, but are added at a later date, are not included within the contract boundary at initial recognition. As the addition of these riders is the exercise of an option under the contract it is not considered a contract modification but is instead treated as changes in fulfilment cash flows.</p> <p>Similar considerations to those applying to underlying insurance contracts apply in determining the contract boundary of groups of reinsurance contracts held.</p>
Discount rates	<p>The discount rate is determined on a bottom-up approach, starting with a liquid risk-free yield curve and adding an illiquidity premium to reflect the characteristics of the insurance contracts.</p> <p>Risk-free rates are based on government bond yields for all currencies. Yield curves are constructed by using a market-observed curve up to a last liquid point and then extrapolating to an ultimate forward rate.</p> <p>Where cash flows depend on the return on underlying items, the projected earned rate is set to be equal to the discount rate.</p>

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

Discount rates (continued)	Where stochastic modelling techniques are used, the projected average investment returns are calibrated to be equal to the deterministic discount rate (including the illiquidity premium).
	The illiquidity premium is calculated as the yield-to-maturity on a reference portfolio of assets with similar liquidity characteristics to the insurance contracts, less the risk-free curve, and an allowance for credit risk. The illiquidity premium is then applied as a parallel shift to the full risk-free curve.
	The allowance for credit risk includes a credit risk premium which is derived through a lifetime projection of expected bond cash flows, allowing for the cost of downgrades and defaults, a rebalancing rate of projected downgrades; and a recovery rate in the event of default.
	A proportion of the reference portfolio's illiquidity premium is applied to portfolios of insurance contracts reflecting the liquidity characteristics of the insurance contracts. The liquidity characteristics are assessed from the policyholders' perspective. A product's illiquidity premium is restricted to be no greater than reasonably expected to be earned on the assets backing the insurance contract liabilities, over the duration of the insurance contracts.
Risk adjustment	The risk adjustment for non-financial risk represents the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfills insurance contracts.
	For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.
	The risk adjustment for non-financial risk is determined by the Company using a confidence level approach. This is implemented through the use of provisions for adverse deviations ("PADs") calibrated using non-financial risk distributions and correlation assumptions. The PADs are applied to best estimate assumptions.
	The Company's risk adjustment allows for all insurance, persistency and expense risks and operational risks specific to uncertainty in the amount and timing of insurance contract cash flows. Reinsurance counterparty default risk is excluded from the calculation. Diversification is included on a net of reinsurance basis.
	By applying a confidence level technique, the Company estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75 th percentile (the target confidence level) over the expected present value of the future cash flows. The confidence level is calibrated over a one-year period.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

Subsequent measurement of CSM

The CSM of each group of insurance contracts is calculated at each reporting date as follows.

The carrying amount of the CSM of contracts measured under the GMM at each reporting date is the carrying amount at the start of the year, adjusted for: (a) the CSM of any new contracts that are added to the Company in the year; (b) interest accreted at locked-in discount rate; (c) changes in fulfilment cash flows that relate to future services except for those relating to onerous contracts; (d) the effect of currency exchange differences on the CSM; and (e) the amount of CSM recognised in profit or loss in the year based on the coverage units.

The carrying amount of the CSM of contracts measured under the VFA at each reporting date is the carrying amount at the start of the year, adjusted for: (a) the CSM of any new contracts that are added to the Company in the year; (b) the change in the amount of the Company's share of the fair value of the underlying items; (c) changes in fulfilment cash flows that relate to future services except for those relating to onerous contracts; (d) the effect of currency exchange differences on the CSM; and (e) the amount of CSM recognised in profit or loss in the year based on the coverage units.

The proportion of CSM recognised in profit or loss at the end of each period for a group insurance of contracts is determined as the ratio of;

- the coverage units in the period; divided by
- the sum of the coverage units in the period and the present value of expected coverage units in future periods.

MFRS 17 provides principle-based guidance on how to determine the coverage units. The total number of coverage units in a group is the quantity of service provided determined by considering the quantity of benefits for each contract and its expected coverage period. The Company defines the quantity of benefits for insurance services as the maximum amount which a policyholder receives when an insured event takes place, for example the sum assured, the annual limit for a medical plan or the present value of a stream of payments. The quantity of benefits is updated each period. Investment related and investment-return services are assumed to be constant over time. However, there could be facts and circumstances where investment related and investment-return services are not considered constant, and a more suitable proxy for services needs to be identified.

Where there are multiple different services in a group of insurance contracts (for example both insurance and investment services are provided), the quantities of benefits for the different types of service are combined using weighting factors. These weighting factors are defined as the present value of expected outflows for each type of service, determined at a contract level.

The expected coverage period is the expected duration up to the contract boundary. The expected coverage period of the contracts in a group and the calculation of future coverage units allows for expected decrements (e.g. deaths and lapses) in each future period using current best estimate assumptions consistent with the best estimate liabilities ("BEL") calculation.

The time value of money will be reflected in future coverage units based on the locked-in discount rate (used to accrete interest on the CSM) for contracts under the GMM, and the current discount rate for contracts under the VFA.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

Derecognition

The Company derecognises an insurance contract when the specified obligations in the contract expire or are discharged or cancelled. The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. The following modifications will require the Company to change the accounting of the respective insurance contracts significantly:

- Had the modified terms included at contract inception, the Company would have concluded that the modified contract (a) is not within the scope of MFRS 17; (b) result in different separable components; (c) results in a different contract boundary; or (d) belongs to a different group of insurance contracts.
- Modification results in a change to contract accounting from VFA to GMM or vice versa.

Reinsurance contracts held

The reinsurance contracts held primarily relate to protection business. The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, surplus, quota share, or catastrophe excess of loss basis. The amount of each risk retained depends on the evaluation of the specific risk, subject to certain circumstances, to internally set maximum limits based on characteristics of coverage.

As required by MFRS 17, all reinsurance contracts held by the Company are measured using either General Measurement Model or Premium Allocation Approach.

The reinsurance contracts held by the Company are subject to the same requirements as underlying contracts in relation to separating distinct investment components and embedded derivatives from a reinsurance contract. No such components currently exist on reinsurance contracts held by the Company.

A group of reinsurance contracts held is recognised on the following date:

- Reinsurance contracts held by the Company that provide proportionate coverage: The later of the start date of the coverage period, and the date on which any underlying insurance contract is initially recognised. This applies to the Company's quota share and coinsurance reinsurance contracts.
- Other (non-proportionate) reinsurance contracts held by the Company: The earlier of beginning of the coverage period of the group of reinsurance contracts or the recognition date of an underlying onerous group of insurance contracts issued.
- Reinsurance contracts held acquired via a business acquisition/combination: The date of the business acquisition/combination.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(a) MFRS 17, 'Insurance contracts' (continued)

Reinsurance contracts held (continued)

On initial recognition, the CSM of a group of reinsurance contracts held represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of (a) the fulfilment cash flows, (b) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the Company, (c) any cash flows arising at that date and (d) any income recognised in profit or loss because of onerous underlying contracts recognised at that date. However, if the net cost of purchasing reinsurance relates to past events, the Company recognises the net cost immediately in profit or loss.

The carrying amount at the end of each reporting period of a group of reinsurance contracts held is measured in the same way as the underlying insurance contracts under GMM and PAA. Reinsurance contracts held are subject to the same modification requirements as insurance contracts.

(b) MFRS 9, 'Financial Instruments'

MFRS 9 'Financial Instruments' was effective for annual periods beginning on or after January 1, 2018 replacing MFRS 139 'Financial Instruments: Recognition and Measurement'. The Company qualifies for the temporary exemption under the guidance on 'Amendments to MFRS 4 – Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts' and has accordingly deferred the adoption of MFRS 9. The Company adopted MFRS 9 together with MFRS 17 'Insurance Contracts' for the financial year beginning on or after 1 January, 2023.

The Company's accounting policies for classification and measurement of financial instruments and impairment of financial assets in accordance with MFRS 9 as below:

Classification and Measurement of Financial Assets

The Company classify all its financial assets based on the way in which the assets are managed in order to generate cash flows and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principals and interest', i.e. SPPI test). Financial assets are measured at either Amortised Cost ("AC") or Fair Value through Profit or Loss ("FVTPL").

A financial asset for investment purpose which do not meet the criteria of both "Hold to collect contractual cash flows" and "Hold to collect contractual cash flows and sell". This financial asset shall be managed on fair value basis through profit or loss and measured at FVTPL. A financial asset for the purpose of "Hold to collect contractual cash flows", and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal shall be measured at AC.

Classification and Measurement of Financial Liabilities

There was no change to the Company's classification and measurement of financial liabilities on the adoption of MFRS 9.

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1. Basis of preparation (continued)

Critical accounting policies, estimates and judgements (continued)

(b) MFRS 9, 'Financial Instruments' (continued)

Impairment of Financial Assets

MFRS 9 requires the Company to measure Expected Credit Loss ("ECL") on all debt type financial instruments that are accounted for at amortised cost. The ECL replaces the existing MFRS 139 incurred loss impairment model, resulting in earlier recognition of credit losses compared to MFRS 139.

The methodology outlined by MFRS 9 is a three-stage approach based on the change in the credit quality of the financial instrument since inception and the measurement of ECL for these assets is dependent on the stage classification as of the reporting date.

Particulars	Stage 1	Stage 2	Stage 3
	(Performing)	(Under-performing)	(Non-performing)
Credit quality	Not deteriorated significantly since its initial recognition	Deteriorated significantly since its initial recognition	Objective evidence of impairment
Credit risk	Low	Moderate to High	High
ECL model	Probability of Default ("PD")/Loss Given Default ("LGD")	Probability of Default ("PD")/ Loss Given Default ("LGD")	Probability of Default ("PD")/ Loss Given Default ("LGD")
ECL approach	12 months ECL	Life-time ECL	Life-time ECL
ECL computation	12 months PD * LGD * Exposure of Default ("EAD")	12 months PD * LGD * Exposure of Default ("EAD")	12 months PD * LGD * Exposure of Default ("EAD")

Under MFRS 9's general approach, a loss allowance for lifetime expected credit losses is recognised for a financial instrument if there has been a significant increase in credit risk, measured using the lifetime probability of default, since initial recognition of the financial instruments.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, a loss allowance for 12-month expected credit losses is recognised. All deposits with financial institutions and cash and bank balances are covered under general approach.

MFRS 9 allows entities to apply a simplified approach for receivables. The simplified approach allows entities to recognise lifetime expected losses on all these assets without the need to identify significant increases in credit risk. The Company applies simplified approach on loans and other receivables by performing ageing analysis for arriving at ECL estimates. The Company adopted zero impairment approach on the loans and other receivables that measured at AC given the balances are short-term in nature, majority of receivables are received post-balance sheet date and no history of default on collection over the past few years.

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2. Comments on seasonality or cyclicity

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

3. Unusual item affecting assets, liabilities, equity, net income or cash flows

There were no items affecting assets, liabilities, equity, net income or cash flows which are unusual because of their nature, size or incidence in the current interim period ended 30 June 2023 other than the following:

- (a) Messrs. Raja Darryl & Loh ("RDL") have filed the cause papers with the Special Commissioner of Income Tax ("SCIT") for the additional assessment issued by the Inland Revenue Board of Malaysia ("IRB") relating to the S110B set-off applied to the actuarial surplus arising from the Unit Linked Investment Funds being disregarded, amounting to RM26.9 million. The Company paid the full additional tax amount. The Company is of the view that there are strong justifications for its appeal against the matter raised by IRB and has treated the full payment as a tax recoverable. As at the date of the condensed interim financial statements, there are no further developments to date regarding this matter other than SCIT has fixed the next hearing to be on 2nd and 3rd October 2023.

We have assessed the tax impact by applying the IRB's computation method relating to Section 110B relief for 2023, in accordance with the requirements of IC Interpretation 23 Uncertainty Over Income Tax Treatments. We concluded there maybe a potential additional tax payable of RM0.75 million as compared to the existing tax treatment to be adopted for YA2023.

4. Changes in estimates

There were no material changes in the basis used for accounting estimates for the current interim period ended 30 June 2023.

5. Issues, repurchases and repayments of debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities by the Company in the current interim period ended 30 June 2023.

6. Events after the interim period

There were no material events after the interim period that have not been reflected in the condensed interim financial statements for the interim period.

7. Effect of changes in the composition of the Company

There were no changes in the composition of the Company during the period under review.

8. Changes in contingent liabilities or contingent assets

There were no material changes in the Company's contingent liabilities and contingent assets since the last annual balance sheet date.

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9. Investments, including derivatives

	30.06.2023	31.12.2022
	RM'000	Restated RM'000
Malaysian government securities	4,134,140	3,912,280
Debt securities	13,547,537	13,022,640
Equity securities	14,748,776	15,110,118
Unit and property trust funds	1,680,421	1,298,488
Foreign managed funds	3,499,664	3,195,431
Investment in structured products	5,233	5,506
Derivatives	5,928	8,954
Loans	1,457	1,402
Deposits with financial institutions	4,068,863	4,327,423
	<u>41,692,019</u>	<u>40,882,242</u>

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

	30.06.2023	31.12.2022
	RM'000	Restated RM'000
Amortised cost ("AC")	4,070,320	4,328,825
Fair value through profit or loss ("FVTPL")	37,621,699	36,553,417
	<u>41,692,019</u>	<u>40,882,242</u>

The following investments mature after 12 months:

	30.06.2023	31.12.2022
	RM'000	Restated RM'000
Amortised cost ("AC")	151,434	91,378
Fair value through profit or loss ("FVTPL")	17,556,552	16,597,038
	<u>17,707,986</u>	<u>16,688,416</u>

(a) Amortised Cost

	30.06.2023	31.12.2022
	RM'000	Restated RM'000
Fixed and call deposits with financial institutions	4,068,863	4,327,423
Mortgage loans	1,413	1,353
Unsecured loans	44	49
	<u>4,070,320</u>	<u>4,328,825</u>

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9. Investments, including derivatives (continued)

(b) Fair value through profit or loss

	30.06.2023	31.12.2022
	RM'000	Restated RM'000
Malaysian government securities	4,134,140	3,912,280
Debt securities	13,547,537	13,022,640
Equity securities	14,748,776	15,110,118
Unit and property trust funds	1,680,421	1,298,488
Foreign managed funds	3,499,664	3,195,431
Investment in structured products	5,233	5,506
Derivatives	5,928	8,954
	<u>37,621,699</u>	<u>36,553,417</u>

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10. Insurance contract assets/liabilities

a) Roll-forward of the net asset/liability of insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims:

	30.06.2023			
	Liability for remaining coverage		Liability for incurred claims	Total
	Loss component RM'000	Excluding loss component RM'000	RM'000	RM'000
At 1 January 2023				
Opening (assets)	-	(62,541)	5,206	(57,335)
Opening liabilities	191,596	31,896,465	1,636,311	33,724,372
Net opening liabilities	191,596	31,833,924	1,641,517	33,667,037
Insurance revenue				
Expected incurred claims and other insurance service result	-	(1,341,509)	-	(1,341,509)
Change in risk adjustment for non-financial risk expired	-	(52,880)	-	(52,880)
CSM recognised for services provided	-	(488,021)	-	(488,021)
Recovery of insurance acquisition cash flows	-	(493,458)	-	(493,458)
Premium and other adjustments	-	(42,747)	-	(42,747)
Contracts measured under PAA	-	(24,523)	-	(24,523)
Insurance service expense				
Adjustments to liability for incurred claims	-	-	108,035	108,035
Amortisation of insurance acquisition cash flows	-	493,458	-	493,458
Incurred claims and other expenses	(8,788)	-	1,389,624	1,380,836
Losses and/or reversal of losses on onerous contracts	5,313	-	-	5,313
Insurance Service Result	(3,475)	(1,949,680)	1,497,659	(455,496)

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10. Insurance contract assets/liabilities (continued)

- a) Roll-forward of the net asset/liability of insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (continued):

	30.06.2023			
	Liability for remaining coverage		Liability for incurred claims	Total
	Loss component	Excluding loss component	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000
Investment components	-	(1,259,585)	1,259,585	-
Net insurance finance expense	4,263	384,179	28,333	416,775
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	788	(2,825,086)	2,785,577	(38,721)
Cash flows				
Claims & other insurance services expenses paid	-	-	(2,733,328)	(2,733,328)
Insurance acquisition cash flows	-	(613,543)	-	(613,543)
Premiums and other amounts received for insurance contracts	-	4,094,068	-	4,094,068
Total cash flows	-	3,480,525	(2,733,328)	747,197
Net closing liabilities	192,384	32,489,363	1,693,766	34,375,513
At 30 June 2023				
Closing (assets)	-	(49,183)	13,331	(35,852)
Closing liabilities	192,384	32,538,546	1,680,435	34,411,365
Net closing liabilities	192,384	32,489,363	1,693,766	34,375,513

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10. Insurance contract assets/liabilities (continued)

- a) Roll-forward of the net asset/liability of insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (continued):

	31.12.2022			
	Liability for remaining coverage		Liability for incurred claims	Total
	Loss component RM'000	Excluding loss component RM'000	RM'000	RM'000
At 1 January 2022				
Opening (assets)	-	(16,504)	3,773	(12,731)
Opening liabilities	152,187	31,061,170	1,550,851	32,764,208
Net opening liabilities	152,187	31,044,666	1,554,624	32,751,477
Insurance revenue				
Expected incurred claims and other insurance service result	-	(2,505,755)	-	(2,505,755)
Change in risk adjustment for non-financial risk expired	-	(89,392)	-	(89,392)
CSM recognised for services provided	-	(947,857)	-	(947,857)
Recovery of insurance acquisition cash flows	-	(977,460)	-	(977,460)
Premium and other adjustments	-	15,030	-	15,030
Contracts measured under PAA	-	(44,108)	-	(44,108)
Insurance service expense				
Adjustments to liability for incurred claims	-	-	(173,785)	(173,785)
Amortisation of insurance acquisition cash flows	-	977,460	-	977,460
Incurred claims and other expenses	(27,271)	-	2,786,667	2,759,396
Losses and/or reversal of losses on onerous contracts	60,774	-	-	60,774
Insurance Service Result	33,503	(3,572,082)	2,612,882	(925,697)

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10. Insurance contract assets/liabilities (continued)

- a) Roll-forward of the net asset/liability of insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (continued):

	31.12.2022			
	Liability for remaining coverage		Liability for incurred claims	Total
	Loss component	Excluding loss component	claims	RM'000
	RM'000	RM'000	RM'000	RM'000
Investment components	-	(2,627,812)	2,627,812	-
Net insurance finance expense/(income)	5,906	71,445	(15,258)	62,093
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	39,409	(6,128,449)	5,225,436	(863,604)
Cash flows				
Claims & other insurance services expenses paid	-	-	(5,138,543)	(5,138,543)
Insurance acquisition cash flows	-	(1,437,471)	-	(1,437,471)
Premiums and other amounts received for insurance contracts	-	8,355,178	-	8,355,178
Total cash flows	-	6,917,707	(5,138,543)	1,779,164
Net closing liabilities	191,596	31,833,924	1,641,517	33,667,037
At 31 December 2022				
Closing (assets)	-	(62,541)	5,206	(57,335)
Closing liabilities	191,596	31,896,465	1,636,311	33,724,372
Net closing liabilities	191,596	31,833,924	1,641,517	33,667,037

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10. Insurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of insurance contracts issued that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM:

	30.06.2023			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
At 1 January 2023				
Opening (assets)	-	-	-	-
Opening liabilities	23,367,674	1,259,940	9,094,516	33,722,130
Net opening liabilities	23,367,674	1,259,940	9,094,516	33,722,130
Changes that relate to current services				
CSM recognised for services provided	-	-	(488,021)	(488,021)
Risk adjustment recognised for the risk expired	-	(52,662)	-	(52,662)
Experience adjustments	(20,832)	-	-	(20,832)
Changes that relate to future services				
Contracts initially recognised in the period	(328,059)	46,941	282,868	1,750
Changes in estimates that adjust the CSM	(117,670)	13,045	104,625	-
Changes in estimates that do not adjust the CSM	181	3,382	-	3,563
Changes that relate to past services				
Adjustments to liabilities for incurred claims	97,861	1,594	-	99,455
Insurance Service Result	(368,519)	12,300	(100,528)	(456,747)
Net insurance finance expense	247,835	21,012	147,928	416,775
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	(120,684)	33,312	47,400	(39,972)

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10. Insurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of insurance contracts issued that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM (continued):

	30.06.2023			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
Cash flows				
Claims & other insurance services expenses paid	(2,718,169)	-	-	(2,718,169)
Insurance acquisition cash flows	(605,888)	-	-	(605,888)
Premiums and other amounts received for insurance contracts	4,049,370	-	-	4,049,370
Total cash flows	725,313	-	-	725,313
Net closing liabilities	23,972,303	1,293,252	9,141,916	34,407,471
At 30 June 2023				
Closing (assets)	-	-	-	-
Closing liabilities	23,972,303	1,293,252	9,141,916	34,407,471
Net closing liabilities	23,972,303	1,293,252	9,141,916	34,407,471

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10. Insurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of insurance contracts issued that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM (continued):

	31.12.2022			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
At 1 January 2022				
Opening (assets)	-	-	-	-
Opening liabilities	22,381,228	1,418,375	8,963,298	32,762,901
Net opening liabilities	22,381,228	1,418,375	8,963,298	32,762,901
Changes that relate to current services				
CSM recognised for services provided	-	-	(947,857)	(947,857)
Risk adjustment recognised for the risk expired	(5,776)	(66,886)	(16,270)	(88,932)
Experience adjustments	235,828	-	-	235,828
Changes that relate to future services				
Contracts initially recognised in the period	(630,452)	87,121	547,887	4,556
Changes in estimates that adjust the CSM	54,296	(162,706)	108,410	-
Changes in estimates that do not adjust the CSM	64,122	(7,910)	6	56,218
Changes that relate to past services				
Adjustments to liabilities for incurred claims	(192,807)	3,728	-	(189,079)
Insurance Service Result	(474,789)	(146,653)	(307,824)	(929,266)
Net insurance finance (income)/expenses	(365,167)	(11,782)	439,042	62,093
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	(839,956)	(158,435)	131,218	(867,173)

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10. Insurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of insurance contracts issued that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM (continued):

	31.12.2022			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
Cash flows				
Claims & other insurance services expenses paid	(5,095,131)	-	-	(5,095,131)
Insurance acquisition cash flows	(1,422,010)	-	-	(1,422,010)
Premiums and other amounts received for insurance contracts	8,343,543	-	-	8,343,543
Total cash flows	1,826,402	-	-	1,826,402
Net closing liabilities	23,367,674	1,259,940	9,094,516	33,722,130
At 31 December 2022				
Closing (assets)	-	-	-	-
Closing liabilities	23,367,674	1,259,940	9,094,516	33,722,130
Net closing liabilities	23,367,674	1,259,940	9,094,516	33,722,130

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11. Reinsurance contract assets/liabilities

a) Roll-forward of the net asset/liability of reinsurance contracts held showing the asset for remaining coverage and the asset for incurred claims:

	30.06.2023			
	Assets for remaining coverage		Asset for incurred claims	Total
	Loss-recovery component RM'000	Excluding loss-recovery component RM'000	RM'000	RM'000
At 1 January 2023				
Opening assets	1,342	(120,248)	215,690	96,784
Opening (liabilities)	156	(273,821)	95,186	(178,479)
Net opening assets/(liabilities)	1,498	(394,069)	310,876	(81,695)
Allocation of reinsurance premiums				
Amounts relating to the changes in the assets for remaining coverage	-	(145,834)	-	(145,834)
Amounts recoverable from reinsurers				
Recognition/Reversal of loss-recovery from onerous underlying contracts	223	-	-	223
Amounts recoverable for claims and other expenses incurred in the period	-	-	111,025	111,025
Changes in amounts recoverable arising from changes in liability for incurred claims	-	-	17,740	17,740
Net income/(expense) from reinsurance contracts held	223	(145,834)	128,765	(16,846)
Reinsurance finance expense	-	(1,462)	-	(1,462)
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	223	(147,296)	128,765	(18,308)

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11. Reinsurance contract assets/liabilities (continued)

- a) Roll-forward of the net asset/liability of reinsurance contracts held showing the asset for remaining coverage and the asset for incurred claims (continued):

	30.06.2023			
	Assets for remaining coverage		Asset for incurred claims	Total
	Loss-recovery component	Excluding loss-recovery component	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000
Cash flows				
Premiums paid	-	68,131	-	68,131
Amounts recovered	-	-	(50,327)	(50,327)
Total cash flows	-	68,131	(50,327)	17,804
Net closing assets/(liabilities)	1,721	(473,234)	389,314	(82,199)
At 30 June 2023				
Closing assets	1,427	(119,888)	232,646	114,185
Closing (liabilities)	294	(353,346)	156,668	(196,384)
Net closing assets/(liabilities)	1,721	(473,234)	389,314	(82,199)

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11. Reinsurance contract assets/liabilities (continued)

- a) Roll-forward of the net asset/liability of reinsurance contracts held showing the asset for remaining coverage and the asset for incurred claims (continued):

	31.12.2022			
	Assets for remaining coverage		Asset for incurred claims	Total
	Loss-recovery component RM'000	Excluding loss-recovery component RM'000	RM'000	RM'000
At 1 January 2022				
Opening assets	-	(95,170)	192,395	97,225
Opening (liabilities)	-	(232,996)	85,516	(147,480)
Net opening (liabilities)/assets	-	(328,166)	277,911	(50,255)
Allocation of reinsurance premiums				
Amounts relating to the changes in the assets for remaining coverage	-	(260,891)	-	(260,891)
Amounts recoverable from reinsurers				
Recognition of loss-recovery from onerous underlying contracts	1,498	-	-	1,498
Amounts recoverable for claims and other expenses incurred in the period	-	-	189,288	189,288
Changes in amounts recoverable arising from changes in liability for incurred claims	-	-	26,891	26,891
Net income/(expense) from reinsurance contracts held	1,498	(260,891)	216,179	(43,214)
Reinsurance finance expense	-	(11,727)	-	(11,727)
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	1,498	(272,618)	216,179	(54,941)

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11. Reinsurance contract assets/liabilities (continued)

- a) Roll-forward of the net asset/liability of reinsurance contracts held showing the asset for remaining coverage and the asset for incurred claims (continued):

	31.12.2022			
	Assets for remaining coverage		Asset for incurred claims	Total
	Loss-recovery component RM'000	Excluding loss-recovery component RM'000	RM'000	RM'000
Cash flows				
Premiums paid	-	206,715	-	206,715
Amounts recovered	-	-	(183,214)	(183,214)
Total cash flows	-	206,715	(183,214)	23,501
Net closing assets/(liabilities)	1,498	(394,069)	310,876	(81,695)
At 31 December 2022				
Closing assets	1,342	(120,248)	215,690	96,784
Closing (liabilities)	156	(273,821)	95,186	(178,479)
Net closing assets/(liabilities)	1,498	(394,069)	310,876	(81,695)

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11. Reinsurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of reinsurance contracts held that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM:

	30.06.2023			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
At 1 January 2023				
Opening assets	88,253	15,252	(17,880)	85,625
Opening (liabilities)	(202,377)	7,509	20,109	(174,759)
Net opening (liabilities)/assets	(114,124)	22,761	2,229	(89,134)
Changes that relate to current services				
CSM recognised for services received	-	-	(607)	(607)
Risk adjustment recognised for the risk expired	-	(2,790)	-	(2,790)
Experience adjustments	(25,429)	-	-	(25,429)
Changes that relate to future services				
Contracts initially recognised in the period	(2,753)	658	2,095	-
Changes in estimates that adjust the CSM	12,120	1,135	(13,255)	-
Changes in estimates that do not adjust the CSM	316	-	-	316
Changes that relate to past services				
Changes in amounts recoverable arising from changes in liability for incurred claims	14,243	-	-	14,243
Net expense from reinsurance contracts held	(1,503)	(997)	(11,767)	(14,267)
Net reinsurance finance (expense)/income	(1,992)	486	44	(1,462)
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	(3,495)	(511)	(11,723)	(15,729)

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11. Reinsurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of reinsurance contracts held that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM (continued):

	30.06.2023			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
Cash flows				
Premiums paid	67,266	-	-	67,266
Amounts recovered	(48,161)	-	-	(48,161)
Total cash flows	19,105	-	-	19,105
Net closing (liabilities)/assets	(98,514)	22,250	(9,494)	(85,758)
At 30 June 2023				
Closing assets	106,375	15,677	(17,085)	104,967
Closing (liabilities)	(204,889)	6,573	7,591	(190,725)
Net closing (liabilities)/assets	(98,514)	22,250	(9,494)	(85,758)

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11. Reinsurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of reinsurance contracts held that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM (continued):

	31.12.2022			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
At 1 January 2022				
Opening assets	93,447	31,022	(27,244)	97,225
Opening (liabilities)	(205,936)	9,295	50,650	(145,991)
Net opening (liabilities)/assets	(112,489)	40,317	23,406	(48,766)
Changes that relate to current services				
CSM recognised for services received	-	-	(5,429)	(5,429)
Risk adjustment recognised for the risk expired	-	(5,514)	-	(5,514)
Experience adjustments	(63,601)	-	-	(63,601)
Changes that relate to future services				
Contracts initially recognised in the period	(6,315)	4,173	2,142	-
Changes in estimates that adjust the CSM	37,528	(18,907)	(18,621)	-
Changes in estimates that do not adjust the CSM	1,626	-	-	1,626
Changes that relate to past services				
Changes in amounts recoverable arising from changes in liability for incurred claims	19,371	-	-	19,371
Net expense from reinsurance contracts held	(11,391)	(20,248)	(21,908)	(53,547)
Net reinsurance finance (expense)/income	(15,150)	2,692	731	(11,727)
Total changes in the Statement of Profit or Loss and Other Comprehensive Income	(26,541)	(17,556)	(21,177)	(65,274)

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11. Reinsurance contract assets/liabilities (continued)

- b) Roll-forward of the net asset/liability of reinsurance contracts held that are not measured under the premium allocation approach, showing the estimates of the present value of future cash flows, risk adjustment and CSM (continued):

	31.12.2022			
	Estimates of the present value of future cash flows RM'000	Risk adjustment RM'000	Contractual Service Margin RM'000	Total RM'000
Cash flows				
Premiums paid	200,367	-	-	200,367
Amounts recovered	(175,461)	-	-	(175,461)
Total cash flows	24,906	-	-	24,906
Net closing (liabilities)/assets	(114,124)	22,761	2,229	(89,134)
At 31 December 2022				
Closing assets	88,253	15,252	(17,880)	85,625
Closing (liabilities)	(202,377)	7,509	20,109	(174,759)
Net closing (liabilities)/assets	(114,124)	22,761	2,229	(89,134)

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12. Regulatory capital requirements

The capital structure of the Company as at 30 June 2023, as prescribed under Bank Negara Malaysia's Risk Based Capital Framework for Insurers is provided below:

	30.06.2023 RM'000	31.12.2022 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000	100,000
Reserves, including retained earnings	<u>4,333,750</u>	<u>4,311,095</u>
	4,433,750	4,411,095
Deduction		
Intangible assets and deferred tax assets	<u>325,707</u>	<u>321,477</u>
Total capital available	<u><u>4,108,043</u></u>	<u><u>4,089,618</u></u>

For life insurer with participating business, the Capital Adequacy Ratio ("CAR") shall be computed as the lower of CAR which takes into account all the insurance and shareholders funds; and CAR which takes into account all the insurance and shareholders funds, excluding the participating life insurance fund.

The Company is in compliance with the RBC Framework.

13. Capital commitments

The capital commitments are in respect of:

- property and equipment
- intangible assets
- relocation cost

	30.06.2023 RM'000	31.12.2022 RM'000
Authorised and contracted for	<u>15,217</u>	<u>12,767</u>

14. Dividends

In the prior interim period ended 30 June 2022, the Company paid a final single tier dividend of 265.0% totalling RM265.0 million for the year ended 31 December 2021 on 31 May 2022.

In the current interim period ended 30 June 2023, the Company paid a final single tier dividend of 271.0% totalling RM271.0 million for the year ended 31 December 2022 on 30 May 2023.

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15. Related party disclosures

The significant related party transactions and balances of the Company are as follows:

	6 months period ended 30.06.2023 RM'000	6 months period ended 30.06.2022 RM'000
Transactions:		
Outsourcing fees and other charges		
- Prudential Services Asia Sdn Bhd	7,259	954
- Prudential Services Singapore Pte Ltd	4,303	1,947
- Pulse Ecosystem Pte Ltd	31,886	-
Recharge expenses		
- Prudential Corporation Holdings Limited	22,126	15,137
Recharge income		
- Prudential BSN Takaful Berhad	(53,050)	(61,369)
Investment management fees		
- Eastspring Investments Berhad	41,674	42,877
- Eastspring Al-Wara' Investments Berhad	2,185	2,115
	30.06.2023 RM'000	31.12.2022 RM'000
Balances:		
Amount due to related companies:		
- Prudential Services Asia Sdn Bhd	(7,416)	(12,641)
- Eastspring Investments (Singapore) Limited	(9)	(8)
- Prudential Corporation Holdings Limited	(37,151)	(44,215)
- Eastspring Al-Wara' Investments Berhad	(678)	(2,370)
- Prudential Services Singapore Pte Ltd	(5,833)	(9,293)
- Eastspring Investment Berhad	(4,241)	-
- Pulse Ecosystem Pte Ltd	(28,406)	-
Amount due from related companies:		
- Prudential BSN Takaful Berhad	45,117	30,552
- Eastspring Investments Berhad	-	4,553

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16. Insurance funds

The Company's activities are organised by funds and segregated into Life and Shareholder's funds in accordance with the Financial Services Act, 2013.

The condensed statement of financial position and condensed statement of profit or loss and other comprehensive income have been further analysed by funds.

The life insurance business offers a wide range of participating and non-participating whole life, term assurance, endowment and annuity products, as well as investment-linked products.

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16. Insurance funds (continued)

Condensed statement of financial position by funds as at 30 June 2023 - unaudited

	Shareholder's fund		Life fund		Elimination*		Total	
	30.06.2023	31.12.2022 Restated	30.06.2023	31.12.2022 Restated	30.06.2023	31.12.2022 Restated	30.06.2023	31.12.2022 Restated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Property and equipment	50	19	176,826	195,181	-	-	176,876	195,200
Right-of-use assets	-	-	140,523	141,595	-	-	140,523	141,595
Intangible assets	-	1	324,786	316,290	-	-	324,786	316,291
Investments, including derivatives	550,782	407,612	41,141,237	40,474,630	-	-	41,692,019	40,882,242
Insurance contract assets	-	-	35,852	57,335	-	-	35,852	57,335
Reinsurance contract assets	-	-	114,185	96,784	-	-	114,185	96,784
Other receivables	126,079	660,526	745,417	621,138	(114,266)	(654,097)	757,230	627,567
Deferred tax assets	-	-	25,546	-	-	-	25,546	-
Tax recoverable	130,165	35,279	6,927	14,195	-	-	137,092	49,474
Cash and bank balances	3,318	4,040	93,634	66,705	-	-	96,952	70,745
Total assets	810,394	1,107,477	42,804,933	41,983,853	(114,266)	(654,097)	43,501,061	42,437,233
Equity, policyholders' funds and liabilities								
Total equity	745,115	1,021,975	5,548,097	5,075,782	-	-	6,293,212	6,097,757
Insurance contract liabilities	-	-	34,411,365	33,724,372	-	-	34,411,365	33,724,372
Reinsurance contract liabilities	-	-	196,384	178,479	-	-	196,384	178,479
Deferred tax liabilities	39,241	30,484	1,776,956	1,621,483	-	-	1,816,197	1,651,967
Derivatives	-	-	13,150	-	-	-	13,150	-
Lease liabilities	-	-	148,168	148,541	-	-	148,168	148,541
Tax payable	-	25,910	21,666	13,473	-	-	21,666	39,383
Other payables and provisions	26,038	29,108	689,147	1,221,723	(114,266)	(654,097)	600,919	596,734
Total liabilities	65,279	85,502	37,256,836	36,908,071	(114,266)	(654,097)	37,207,849	36,339,476
Total equity, policyholders' funds and liabilities	810,394	1,107,477	42,804,933	41,983,853	(114,266)	(654,097)	43,501,061	42,437,233

* Refer to elimination of interfund balances.

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16. Insurance funds (continued)

Condensed statement of profit or loss and other comprehensive income by funds for the 6 months period ended 30 June 2023 - unaudited

	Shareholder's fund		Life fund		Total	
	6 months period ended 30.06.2023	6 months period ended 30.06.2022 Restated	6 months period ended 30.06.2023	6 months period ended 30.06.2022 Restated	6 months period ended 30.06.2023	6 months period ended 30.06.2022 Restated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Insurance revenue	-	-	2,443,138	2,178,970	2,443,138	2,178,970
Insurance service expense for insurance contract issued	-	-	(1,987,642)	(1,719,413)	(1,987,642)	(1,719,413)
Net expense from reinsurance contracts held	-	-	(16,846)	(27,922)	(16,846)	(27,922)
Insurance service result	-	-	438,650	431,635	438,650	431,635
Investment income/(expenses)	7,043	2,396	601,310	(1,662,543)	608,353	(1,660,147)
Insurance finance (expense)/income	-	-	(416,775)	1,141,716	(416,775)	1,141,716
Reinsurance finance (expense)/income	-	-	(1,462)	25	(1,462)	25
Net investment result	7,043	2,396	183,073	(520,802)	190,116	(518,406)
Other income	53,083	61,605	36,971	27,194	90,054	88,799
Other expenditure	(54,054)	(66,689)	(19,370)	(20,095)	(73,424)	(86,784)
Profit/(Loss) before tax	6,072	(2,688)	639,324	(82,068)	645,396	(84,756)
Taxation	(10,614)	(7,006)	(167,008)	138,394	(177,622)	131,388
Net (loss)/profit/Total comprehensive (expense)/ income for the period	(4,542)	(9,694)	472,316	56,326	467,774	46,632

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16. Insurance funds (continued)

Investment-linked funds

Condensed statement of assets and liabilities as at 30 June 2023 - unaudited

	30.06.2023 RM'000	31.12.2022 RM'000
Assets		
Investments	22,323,885	21,952,794
Deferred tax assets	25,476	-
Other receivables	93,893	127,792
Tax recoverable	9,707	11,366
Cash and bank balances	34,575	30,718
Total assets	<u>22,487,536</u>	<u>22,122,670</u>
Liabilities		
Deferred tax liabilities	-	14,510
Derivatives	13,150	-
Tax payable	15,689	7,672
Other payables	63,863	82,371
Total liabilities	<u>92,702</u>	<u>104,553</u>
Net asset value of funds	<u>22,394,834</u>	<u>22,018,117</u>

Condensed statement of income and expenditure for the 6 months period ended 30 June 2023 - unaudited

	6 months period ended 30.06.2023 RM'000	6 months period ended 30.06.2022 RM'000
Investment income	418,352	367,195
Realised losses	(31,427)	(17,986)
Fair value losses	(478,317)	(1,457,364)
Fee and commission income	55,969	40,968
Other operating (expense)/income	(15,893)	24
	<u>(51,316)</u>	<u>(1,067,163)</u>
Fee and commission expense	(199,428)	(182,167)
Loss before taxation	<u>(250,744)</u>	<u>(1,249,330)</u>
Taxation	33,981	110,574
Net loss/Total comprehensive expense for the period	<u>(216,763)</u>	<u>(1,138,756)</u>

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17. Operating segments

Segment information is presented based on the Company's management and internal reporting structure. The Company does not present information by business segment as it is principally involved in the underwriting of life insurance business which includes investment-linked business. The financial position and performance of the life insurance business of the Company have been disclosed separately within these financial statements.

Financial information by geographical segment has not been presented as the Company predominantly operates within Malaysia.

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18. Fair value information

The carrying amounts of fixed and call deposits with financial institutions, mortgage loans, unsecured loans, cash and bank balances, short-term receivables and short-term payables reasonably approximate their fair value due to relatively short-term nature of these financial instruments.

The table below analyses financial instruments carried at fair value by valuation hierarchy. There are no financial instruments not carried at fair value for which fair value is disclosed during the financial period.

	Financial instruments carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
30 June 2023					
Financial assets					
Malaysian government securities	-	4,134,140	-	4,134,140	4,134,140
Debt securities	-	13,490,937	56,600	13,547,537	13,547,537
Equity securities	14,743,480	-	5,296	14,748,776	14,748,776
Unit and property trust funds	293,595	1,386,826	-	1,680,421	1,680,421
Foreign managed funds	-	3,499,664	-	3,499,664	3,499,664
Investment in structured products	-	5,233	-	5,233	5,233
Derivatives	-	5,928	-	5,928	5,928
	<u>15,037,075</u>	<u>22,522,728</u>	<u>61,896</u>	<u>37,621,699</u>	<u>37,621,699</u>
Financial liability					
Derivatives	-	13,150	-	13,150	13,150

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18. Fair value information (continued)

	Financial instruments carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
31 December 2022					
Financial assets					
Malaysian government securities	-	3,912,280	-	3,912,280	3,912,280
Debt securities	-	12,963,540	59,100	13,022,640	13,022,640
Equity securities	15,104,822	-	5,296	15,110,118	15,110,118
Unit and property trust funds	285,754	1,012,734	-	1,298,488	1,298,488
Foreign managed funds	-	3,195,431	-	3,195,431	3,195,431
Investment in structured products	-	5,506	-	5,506	5,506
Derivatives	-	8,954	-	8,954	8,954
	<u>15,390,576</u>	<u>21,098,445</u>	<u>64,396</u>	<u>36,553,417</u>	<u>36,553,417</u>

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18. Fair value information (continued)

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

Level 1 principally includes exchange listed equities, mutual funds with quoted prices and exchange traded derivatives such as futures and options, unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active.

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

Level 2 principally includes corporate bonds, foreign managed funds, national and non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts, unit and property trust funds and structured products.

There has been no transfer between Level 1 and 2 fair values during the current interim period ended 30 June 2023 (30 June 2022: no transfer in either directions).

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

Level 3 principally includes investment in unquoted equities and debt securities which are internally valued or subject to a significant number of unobservable assumptions. The inherent nature of the vast majority of these assets means that, in normal market conditions, there is unlikely to be significant change in the specific underlying assets classified as Level 3.

Financial assets measured at fair value based on Level 3:

	Unquoted equity securities RM'000	Unquoted debt securities RM'000	Total RM'000
At 1 January 2022	5,296	61,600	66,896
Transfer out of Level 3	-	(2,500)	(2,500)
At 31 December 2022	5,296	59,100	64,396
Transfer out of Level 3	-	(2,500)	(2,500)
At 30 June 2023	<u>5,296</u>	<u>56,600</u>	<u>61,896</u>

The transfer out of Level 3 comprises of a tranche of unquoted debt securities which matured in April 2023.

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Statement by Directors

In the opinion of the Directors, the condensed interim financial statements set out on pages 1 to 55 are drawn up in accordance with MFRS 134, *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board and IAS 34, *Interim Financial Reporting* issued by the International Accounting Standards Board so as to present fairly the financial position of the Company as at 30 June 2023 and of its financial performance and cash flows for the period then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors:

.....
Foong Pik Yee
Director

.....
Abdul Khalil bin Abdul Hamid
Director

Kuala Lumpur,

Date: 27 September 2023



Ernst & Young PLT
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Report on review of interim condensed financial statements to the Board of Directors of Prudential Assurance Malaysia Berhad for the half-year ended 30 June 2023 (Incorporated in Malaysia)

Introduction

We have reviewed the accompanying unaudited interim condensed financial statements of Prudential Assurance Malaysia Berhad as at 30 June 2023, comprising of the unaudited interim condensed statement of financial position, the unaudited interim condensed statement of profit or loss and other comprehensive income, the unaudited interim condensed statement of changes in equity and the unaudited interim condensed cash flows for the 6-month period then ended and the explanatory notes.

The directors and management are responsible for the preparation and presentation of these unaudited interim condensed financial statements in accordance with the Malaysian Financial Reporting Standard 134: *Interim Financial Reporting* ("MFRS 134") and International Financial Reporting Standard IAS 34: *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these unaudited interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with Malaysian Approved Standard on Review Engagements, ISRE 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of unaudited interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Approved Standards on Auditing in Malaysia and International Standards on Auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited interim condensed financial statements are not prepared, in all material respects, in accordance with MFRS 134 and IAS 34.



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**Report on review of interim condensed financial statements to the Board of Directors of Prudential Assurance Malaysia Berhad for the half-year ended 30 June 2023 (cont'd)
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Other matters

This report is made solely to the Board of Directors of the Company, in accordance with the terms of our review engagement letter dated 22 September 2023 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

ERNST & YOUNG PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Kuala Lumpur, Malaysia
27 September 2023