Company No.	
814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2011

Company No.	
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MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2011

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Company No.

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MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITY

The Company is principally engaged in the underwriting of life insurance business. There has been no significant change in the principal activity of the Company during the financial year.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	62,321

DIVIDENDS

No dividends have been paid nor declared by the Company since the end of the previous financial year.

The directors do not recommend any payment of dividend for the current financial year.

RESERVES AND PROVISIONS

Material transfers to or from reserves and provisions during the financial year are as disclosed in the financial statements.

SHARE CAPITAL

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

PROVISION FOR INSURANCE LIABILITIES

Before the statement of comprehensive income and statement of financial position of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework for Insurers.

BAD AND DOUBTFUL DEBTS

Before the statement of comprehensive income and statement of financial position of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowances for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate impairment losses had been made.

At the date of this report, the directors are not aware of any circumstances that would render the amounts written off for bad debts or the amounts of impairment losses in the financial statements of the Company inadequate to any substantial extent.

DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

Before the statement of comprehensive income and statement of financial position of the Company were made out, the directors took reasonable steps to ascertain that any current assets, other than debts, which were unlikely to realise their values as shown in the accounting records of the Company in the ordinary course of business, have been written down to an amount which they might be expected to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Company to meet their obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE

The Company has taken concerted steps to ensure compliance with Bank Negara Malaysia's ("BNM") Prudential Framework of Corporate Governance for Insurers (JPI/GPI 25) (Consolidated) and its best practice applications.

Board responsibility and oversight

The Board of Directors ("the Board") has generally complied with BNM's Minimum Standards for Prudential Management of Insurers (JPI/GPI 1) (Consolidated). The Board comprises 4 independent non-executive directors, 3 non-independent non-executive directors and an executive director to enable a balanced and objective consideration of issues, hence facilitating optimal decision-making.

Board Committees

During the financial year, the Company used the services of the Board committees of the immediate holding company, which are as follows:

(i) Group Nominating/Remuneration Committee
(ii) Group Risk Management Committee

Audit Committee

The members of the Audit Committee of the Company as at 31 December 2011 are as follows:-

Datuk Abu Hassan bin Kendut *(Chairman)*
Gianni Fiacco *(Appointed on 17 March 2011)*
Datuk Seri Panglima Mohd Annuar bin Zaini *(Appointed on 5 July 2011)*
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani *(Appointed on 5 July 2011)*
Robert Allen Cook *(Resigned on 17 March 2011)*
Ahmad Riza bin Basir *(Retired on 24 June 2011)*

A total of five (5) committee meetings were held on 23 February 2011, 16 March 2011, 18 May 2011, 16 August 2011 and 24 November 2011, for the financial year ended 31 December 2011. The attendance of the Audit Committee members are as follows:-

Name of Members	Attendance
Datuk Abu Hassan bin Kendut (Chairman)	5 out of 5 meetings
Gianni Fiacco *(Appointed on 17 March 2011)*	3 out of 3 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini *(Appointed on 5 July 2011)*	2 out of 2 meetings
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani *(Appointed on 5 July 2011)*	2 out of 2 meetings
Robert Allen Cook *(Resigned on 17 March 2011)*	2 out of 3 meetings
Ahmad Riza bin Basir *(Retired on 24 June 2011)*	3 out of 3 meetings

The main duties and responsibilities of the Audit Committee are to review audit issues concerning internal control and risk management identified by the internal auditors, external auditors and regulatory examiners. The Audit Committee annually reviews and approves the audit plan and budget to ensure that the Internal Audit function operates effectively.

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Management accountability

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing policy on executive remuneration. None of the directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Sections 54 and 55 of the Insurance Act, 1996.

The management meets all prescriptive requirements under this section, and has already adopted best practices in the areas of organisational structure and allocation of responsibilities, conflicts of interest, goal setting and the area of communication.

Corporate independence

The Company has complied with the requirements of BNM's Guidelines on Related-Party Transactions (JPI/GPI 19) (Consolidated) in respect of all its related party undertakings. Necessary disclosures have been made to the Board and where required, the prior approval of the Board has also been obtained.

Internal controls and operational risk management

The Company has established an internal control system and formalised its risk management system. As risk management is a continuous process, risk and controls self-assessment are performed on a quarterly basis. The results are reported to the Board accordingly and the corrective actions, where necessary, are taken in a timely manner.

Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

Financial reporting

The Company has maintained proper accounting records and the Company's financial statements are prepared in accordance with the Financial Reporting Standards in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM") pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act, 1965.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The directors who have held office during the year since the date of the last report are:

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim
Datuk Abu Hassan bin Kendut
Philip John Hampden-Smith
Robert Allen Cook
Chan Yui Lung
Gianni Fiacco
Datuk Seri Panglima Mohd Annuar bin Zaini *(Appointed on 5 July 2011)*
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani *(Appointed on 5 July 2011)*
Datuk Ismail bin Haji Ahmad *(Retired on 24 June 2011)*
Ahmad Riza bin Basir *(Retired on 24 June 2011)*

In accordance with Article 1 of the Company's Articles of Association and Regulation 63 of the Table A in the Fourth Schedule to the Companies Act, 1965, Datuk Abu Hassan bin Kendut shall retire at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

In accordance with the Article 1 of the Company's Articles of Association and Regulation 68 of the Table A in the Fourth Schedule to the Companies Act, 1965, Datuk Seri Panglima Mohd Annuar bin Zaini and Dato' Dr Nik Norzrul Thani bin N Hassan Thani shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Section 129 of the Companies Act, 1965, Tan Sri Dato' Mohd Sheriff bin Mohd Kassim shall retire at the forthcoming Annual General Meeting, and being eligible, offers himself for re-appointment.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than benefits disclosed as directors' remuneration and benefits in the financial statements) by reason of a contract made by the Company or a related company with a director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, particulars of interests of directors who held office at the end of the financial year in shares of the Company and of its related corporations are as follows:

	Number of ordinary shares of RM0.50 each			
	As at 1.1.2011	Acquired	Sold	As at 31.12.2011
Manulife Holdings Berhad				
- Direct interest				
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim	50,000	-	-	50,000

	Number of ordinary shares			
	As at 1.1.2011	Acquired	Sold	As at 31.12.2011
Manulife Financial Corporation				
- Direct interest				
Robert Allen Cook	10,000	-	-	10,000
Gianni Fiacco	334	-	-	334

	Number of option on ordinary shares			
	As at 1.1.2011	Granted	Lapsed	As at 31.12.2011
Manulife Financial Corporation				
- Direct interest				
Robert Allen Cook	747,449	152,747	(80,000)	820,196
Philip John Hamphen-Smith	212,180	39,248	-	251,428
Gianni Fiacco	21,584	-	-	21,584
Chan Yui Lung	51,443	-	(22,000)	29,443

Stock options are granted to selected individuals under Manulife Financial Corporation's ("MFC") Executive Stock Option Plan ("ESOP"). These options provide the holder with the right to purchase common shares of MFC at an exercise price equal to the higher of the prior day or prior five day average closing market price of common shares on the Toronto Stock Exchange on the date the options were granted.

MANULIFE INSURANCE BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS (CONTINUED)

	Number of deferred/restricted share units			
	As at 1.1.2011	Reinvested/ granted	Lapsed	As at 31.12.2011
Manulife Financial Corporation				
- Direct interest				
Robert Allen Cook	86,229	11,404	-	97,633
Philip John Hamphen-Smith	74,034	1,522	(10,565)	64,991
Gianni Fiacco	9,158	9,693	(5,784)	13,067
Chan Yui Lung	13,620	8,351	-	21,971

Deferred share units and restricted share units granted to certain employees under Manulife Financial Corporation's ESOP entitle the holder to receive cash payment equal to the value of the same number of common shares plus credited dividends upon retirement or termination of employment or as they are vested.

Other than as disclosed, no other directors in office at the end of the financial year held any interest in the shares in the Company or its related corporations during the financial year.

By virtue of the above directors' interests in the shares of the immediate holding company and the ultimate holding company, they are deemed to have an interest in the shares of the Company to the extent that the immediate holding company and the ultimate holding company have interest.

HOLDING COMPANY

The directors regard Manulife Holdings Berhad, a company incorporated in Malaysia, as the Company's immediate holding company, and Manulife Financial Corporation, a corporation incorporated in Canada, as the ultimate holding company.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 20 March 2012.

TAN SRI DATO' MOHD SHERIFF BIN MOHD KASSIM
CHAIRMAN

CHAN YUI LUNG
DIRECTOR

Kuala Lumpur

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MANULIFE INSURANCE BERHAD
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
Operating revenue	17	628,132	602,280
Gross earned premiums		487,905	467,016
Premiums ceded to reinsurers		(10,582)	(10,519)
Net earned premiums	18	477,323	456,497
Investment income	19	140,227	135,264
Net realised gains	20	49,873	28,104
Net fair value gains	21	-	62,396
Other operating income		1,786	1,114
Other income		191,886	226,878
Gross benefits and claims paid		(422,856)	(378,598)
Claims ceded to reinsurers		3,857	4,737
Gross change to contract liabilities		(37,383)	(99,680)
Net claims		(456,382)	(473,541)
Fee and commission expenses		(65,464)	(73,908)
Net fair value losses	21	(10,531)	-
Investment expenses		(7,481)	(6,708)
Management expenses	22	(44,161)	(36,529)
Other operating expenses	24	(9,482)	(18,219)
Other expenses		(137,119)	(135,364)
Profit before taxation		75,708	74,470
Taxation	25	(13,387)	(14,970)
Net profit for the financial year		62,321	59,500
Other comprehensive (loss)/ income:			
Fair value change on available-for-sale financial assets, net of deferred tax:			
- Gross fair value change	8(c)	(77)	5,979
- Deferred taxation	14	19	(1,494)
- Net (loss)/gain		(58)	4,485
Total comprehensive income for the financial year		62,263	63,985
Net profit attributable to:			
Equity holders of the Company		62,321	59,500
Total comprehensive income attributable to:			
Equity holders of the Company		62,263	63,985
Basic earnings per share (sen)	26	20.77	19.83

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

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
ASSETS			
Property and equipment	4	9,415	4,583
Investment properties	5	48,633	51,215
Intangible assets	6	61	184
Loans and receivables	7	494,343	540,387
Available-for-sale financial assets	8(a)	2,263,027	2,037,181
Fair value through profit or loss financial assets	8(b)	656,565	673,551
Reinsurance assets		3,021	2,368
Insurance receivables	9	27,123	24,512
Current tax assets		4,035	-
Cash and bank balances		24,259	89,526
TOTAL ASSETS		3,530,482	3,423,507
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	10	150,000	150,000
Retained earnings	11	174,965	112,644
Other reserves	11	10,252	10,310
TOTAL EQUITY		335,217	272,954
Insurance contract liabilities	12	2,777,264	2,753,341
Insurance claims liabilities	13	35,372	28,885
Deferred tax liabilities	14	19,558	24,429
Insurance payables	15	328,461	294,114
Current tax liabilities		-	3,053
Other payables	16	34,610	46,731
TOTAL LIABILITIES		3,195,265	3,150,553
TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES		3,530,482	3,423,507

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

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Non-distributable		Distributable	
	Share capital	Fair value reserve	Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2010	150,000	5,825	53,144	208,969
Total comprehensive income for the financial year	-	4,485	59,500	63,985
At 31 December 2010/ 1 January 2011	150,000	10,310	112,644	272,954
Total comprehensive (loss)/income for the financial year	-	(58)	62,321	62,263
At 31 December 2011	150,000	10,252	174,965	335,217

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

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MANULIFE INSURANCE BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		62,321	59,500
Adjustments for non-cash items	28	(119,112)	(91,644)
Operating loss before changes in operating assets and liabilities		(56,791)	(32,144)
Purchase of investments		(1,127,218)	(931,359)
Proceed from sale and maturity of investments		948,319	834,942
Interest income received		100,976	95,160
Dividend income received		27,600	25,613
Rental income received		2,687	2,448
Decrease/(increase) in other receivables		4,285	(7,797)
Increase in payables		22,226	22,820
Increase/(decrease) in insurance claims liabilities		5,833	(730)
Decrease/(increase) in fixed and call deposits		7,868	(18,155)
Decrease in loan receivables		30,521	21,522
Cash (used in)/generated from operations		(33,694)	12,320
Income taxes paid		(29,840)	(25,052)
Net cash outflow from operating activities		(63,534)	(12,732)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(1,734)	(932)
Proceeds from disposal of property and equipment		1	-
Net cash outflow from investing activities		(1,733)	(932)
CASH AND CASH EQUIVALENTS			
Net decrease during the financial year		(65,267)	(13,664)
Cash and cash equivalents at 1 January		89,526	103,190
Cash and cash equivalents at 31 December		24,259	89,526

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows and statement of financial position comprise the following:

	2011	2010
	RM'000	RM'000
Cash and bank balances	18,773	22,705
Short-term deposits	5,486	66,821
Cash and cash equivalents	24,259	89,526

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

1 GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

General

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The immediate holding company is Manulife Holdings Berhad, a public listed company incorporated and domiciled in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad. The ultimate holding company is Manulife Financial Corporation, a corporation incorporated and domiciled in Canada and listed on Toronto, New York and Hong Kong Stock Exchanges.

Principal activity

The Company is principally engaged in the underwriting of life insurance business. There has been no significant change in the principal activity of the Company during the financial year.

Registered office and principal place of business

The registered office and principal place of business of the Company is located at 12th Floor, Menara Manulife, 6 Jalan Gelenggang, Damansara Heights, 50490 Kuala Lumpur.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with the Financial Reporting Standards ("FRS") in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM") pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the FRS requires the directors to exercise their judgement in the process of applying the Company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. Although these estimates are based on the directors' best knowledge of current events and actions, actual results could differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity, are disclosed in note 3 to the financial statements.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

(a) Basis of preparation (continued)

(i) The new accounting standards, amendments and improvements to published standards and interpretations that are effective and applicable for the Company's financial year beginning on or after 1 January 2011 are as follows:

FRSs/Interpretations	Effective Date
• Amendment to FRS 132 "Financial instruments: Presentation" on classification of rights issues	1 March 2010
• FRS 3 (revised) "Business combinations"	1 July 2010
• FRS 127 (revised) "Consolidated and separate financial statements"	1 July 2010
• Amendments to FRS 5 "Non-current assets held for sale and discontinued operations"	1 July 2010
• Amendments to FRS 138 "Intangible Assets"	1 July 2010
• Amendments to IC Interpretation 9 "Reassessment of embedded derivatives"	1 July 2010
• Amendments to FRS 2 "Share-based Payment"	1 July 2010
• Amendment to FRS 2 "Share-based payment: Group cash-settled share-based payment transactions"	1 January 2011
• Amendments to FRS 1 "First-time adoption of financial reporting standards"	1 January 2011
• Amendments to FRS 7 "Financial instruments: Disclosures"	1 January 2011
• IC Interpretation 4 "Determining whether an arrangement contains a lease"	1 January 2011
• Improvements to FRSs (2010)	1 January 2011

The adoption of the above new accounting standards, amendments and improvements to published standards and interpretations does not have any significant impact to the financial statements of the Company, except as stated below:

- FRS 7 (Amendment) "Financial instruments: Disclosures" effective for annual period beginning or after 1 January 2011

  Fair value

  An entity shall disclose for each class of financial instruments, the methods and when valuation techniques is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it. An entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) The new accounting standards, amendments and improvements to published standards and interpretations that are effective and applicable for the Company's financial year beginning on or after 1 January 2011 are as follows: (continued)

- FRS 7 (Amendment) "Financial instruments: Disclosures" effective for annual period beginning or after 1 January 2011 (continued)

  Liquidity risk

  An entity shall disclose:

  (a) A maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities;

  (b) A maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and

  (c) A description of how it managed the liquidity risk inherent in (a) and (b).

- Improvements to FRS 101 "Presentation of financial statements" effective from 1 January 2011 clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

The adoption of the above amendment does not have any significant impact to the financial statements of the Company other than additional disclosures.

(ii) The new accounting standards, amendments and improvements to published standards and interpretations that are effective but not applicable for the Company's financial year beginning on or after 1 January 2011 are as follows:

FRSs/Interpretations	Effective Date
• IC Interpretation 12 "Service concession arrangements"	1 July 2010
• IC Interpretation 16 "Hedges of a net investment in a foreign operation"	1 July 2010
• IC Interpretation 17 "Distribution of non-cash assets to owners"	1 July 2010
• IC Interpretation 18 "Transfers of assets from customers"	1 January 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iii) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective are as follows:

The Company will apply the new standards, amendments to standards and interpretations in the following period:

Financial year beginning on/after 1 January 2012

In the next financial year, the Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

The Company do not expect any significant financial impact to arise from the adoption of MFRS. These MFRSs include the following:

- The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

  The Company will apply this standard from financial period beginning on 1 January 2012.

- Amendment to MFRS 112 "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn. The Company will apply this standard from financial period beginning on 1 January 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iii) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective are as follows: (continued)

Financial year beginning on/after 1 January 2013

- MFRS 9 "Financial instruments - classification and measurement of financial assets and financial liabilities" (effective from 1 January 2013 and deferred to 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

  The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ("FVTPL"). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income ("OCI"). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply. The Company will apply this standard from financial period beginning on 1 January 2015.

- MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones. The Company will apply this standard from financial period beginning on 1 January 2013.

- Amendment to MFRS 1 "First time adoption on fixed dates and hyperinflation" (effective from 1 July 2011) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to MFRSs', thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation. The Company will apply this standard from financial period beginning on 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iii) Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective are as follows: (continued)

Financial year beginning on/after 1 January 2013 (continued)

- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. The Company will apply this standard from financial period beginning on 1 January 2013.

- Amendment to MFRS 101 “Financial statement presentation” (effective from 1 July 2012) requires entities to separate items presented in OCI in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI. The Company will apply this standard from financial period beginning on 1 January 2013.

(b) Property and equipment

Property and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

The cost of property and equipment includes expenditure that is directly attributable to the acquisition of the assets. Dismantlement, removal or restoration costs are included as part of the cost of property and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to the property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Company and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

Land and buildings which are substantially occupied by the Company for its operations, are classified under property and equipment.

Land and buildings are initially stated at cost and subsequently shown at fair value, based on independent valuation of the open market value on the existing use basis carried out by professional valuers less accumulated depreciation and accumulated impairment losses. The valuation of land and buildings is carried out once in every five years or earlier if the carrying values of the revalued assets are materially different from the market values.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment (continued)

When the land and buildings are revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

The surplus arising on revaluation is credited to the asset revaluation reserve account except that a surplus, to the extent that such surplus is related to and not greater than a deficit arising on revaluation previously recorded as an expense, is credited to the profit or loss. A deficit arising on revaluation is recognised as an expense except that, to the extent that such a deficit is related to a surplus which was previously recorded as a credit to the asset revaluation reserve account and which has not been subsequently reversed or utilised, it is charged directly to that account.

No depreciation is charged on freehold land. Leasehold building is amortised in equal installments over the period of their respective leases or earlier if the expected useful life is lower than the leasehold period.

Work-in-progress is not depreciable until the asset is ready for its intended use.

All other property and equipment are depreciated on a straight line basis to write off the cost of the assets over their estimated useful lives. The principal annual rates of depreciation used are as follows:

Building	-	50 years (subsequent to revaluation, the revalued amounts are amortised over the remaining useful lives following the date of the latest valuation)
Furniture, fittings and equipment	-	10% to 20%
Motor vehicles	-	20%

The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each reporting date.

At each reporting date, the Company assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount as set out in note 2(g)(ii) on impairment of assets.

On disposal of property and equipment, the difference between net proceeds and the carrying amount is recognised in the profit or loss. On disposal of revalued assets, the amounts of any remaining revaluation surplus relating to those assets are transferred to retained earnings.

Repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Intangible assets

Intangible assets represent the cost of software rights developed. These rights are amortised on a straight-line basis over a period of four years.

At each reporting date, the Company assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount as set out in note 2(g)(ii) on impairment of assets.

(d) Financial instruments

(i) Classification, recognition and measurement of financial assets

The Company classifies the financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") financial assets, available-for-sale ("AFS") financial assets and loans and receivables ("LAR").

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition.

(1) FVTPL

Financial assets at FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. For investments designated at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value and transaction costs are expensed in the profit or loss. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(i) Classification, recognition and measurement of financial assets (continued)

(2) HTM

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Company has the positive intention and ability to hold until maturity. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial measurement, HTM financial assets are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(3) LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All transaction costs directly attributable to the acquisition are also included in the cost of the investments. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(4) AFS

AFS are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial measurement, AFS are remeasured at fair value.

Fair value gains and losses of these investments are reported as a separate component of equity or insurance contract liabilities until the investments are derecognised or the investments are determined to be impaired.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity or insurance contract liabilities is transferred to profit or loss.

(ii) Derecognition and impairment of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when they have been transferred and the Company have also transferred substantially all risks and rewards of ownership.

All financial assets, except for FVTPL, are subject to review for impairment as set out in 2(g)(i).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date.

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposits/placements and accrued interests/profits. The fair value of fixed interest/yield-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(f) Investment properties

Investment properties comprise land and buildings held by the Company which are held for long term rental yields or for capital appreciation or both and are not substantially occupied by the Company.

Investment properties are initially stated at cost including related and incidental expenditure incurred, and are subsequently carried at fair value by the directors based on independent valuation of the open market values on existing use basis carried out by professional valuers. These valuations are reviewed annually and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying values of the investment properties are materially different from the market values. Investment properties are not depreciated.

Any changes in the fair values of investment properties are recorded in the profit or loss.

On disposal of investment properties, the difference between net proceeds and the carrying amount is recognised in the profit or loss as appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment properties (continued)

If an investment property becomes owner-occupied, it is reclassified to property and equipment at its carrying value at the date of transfer.

(g) Impairment

(i) Financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the impairment loss is recorded in the profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss as previously recognised in the profit or loss, is transferred from equity or insurance contract liabilities to the profit or loss. Reversal of impairment losses on equity instruments classified as AFS are not recognised in the profit or loss. Reversal of impairment losses on debt instruments classified as AFS are reversed through the profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

(ii) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

Non-financial assets that suffered an impairment are reviewed for possible reversal of impairment at each reporting date. Impairment loss is charged to the profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in the recoverable amount is recognised in the profit or loss unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus.

(h) Employee benefits

(i) Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

The Company is required to contribute to the Employees' Provident Fund, a defined contribution plan.

Other than the mandatory contributions to the Employees' Provident Fund, the Company make contributions to a separately funded defined contribution retirement benefits scheme ("the Scheme"), which is operated by the immediate holding company and administered by the Trustees of the Scheme, for all employees of the Group, including employees of the Company. Under the Scheme, the Company shall make contributions to the Scheme at such rate and at such frequency as shall be determined from time to time by the immediate holding company and the Trustees of the Scheme, with the advice of an Actuary, provided that the total contribution by the Company to the Scheme and to the Employees' Provident Fund does not exceed 15% of the employees' salary. An actuarial investigation into the financial condition of the Scheme is made at intervals not longer than one year. The last actuarial investigation was performed as at 31 December 2011.

The contribution payable for the financial year is charged to the profit or loss. Once the contributions have been paid, the Company has no further payment obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Employee benefits (continued)

(iii) <u>Share-based plan</u>

The Company participated in share-based compensation plans granted to certain employees of Manulife Financial Corporation Group as consideration for services rendered. These plans include both equity-settled share options and cash-settled share-based compensation scheme to eligible employees.

(i) Equity-settled share based compensation

The fair value of equity settled, share-based compensation granted to employees as at the grant date is recognised in the profit and loss over the vesting periods of the grant. The fair value of the grant is measured using the Black Scholes option pricing model, with the market price or strike price being the closing transaction price of Manulife Financial Corporation ("MFC") shares prior to the grant date. In valuing the share-based payments, no account is taken of any performance conditions, other than conditions linked to the price of the shares of MFC if applicable.

At each date of the statement of financial position, the Company review its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the profit or loss.

(ii) Cash-settled share-based compensation

The fair value of the employee services received in exchange for the grant of the share appreciation rights is recognised in the profit or loss over the vesting periods of the grant with a corresponding increase in liabilities.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share appreciation rights of Manulife Financial Corporation. At each date of the statement of financial position, the Company review its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the profit or loss.

The cumulative liability incurred net of any directly attributable transaction costs, will be reversed as cash is paid at the end of the vesting period.

(i) Foreign currencies

(i) <u>Functional and presentation currency</u>

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency").

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Foreign currencies (continued)

(ii) <u>Transactions and balances</u>

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(iii) <u>Operations denominated in functional currency other than Ringgit Malaysia</u>

The results and financial position of investment-linked funds' operations (none of which has the currency of a hyperinflationary economy) with functional currency that is different from the presentation currency of the Company are translated into the presentation currency as follows:

(1) Assets and liabilities for statement of financial position presented are translated at the closing rate at the date of the statement of financial position;

(2) Income and expenses for the profit or loss are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates), in which case income and expenses are translated using the exchange rates at the date of the transactions; and

(3) All resulting exchange differences are recognised as a separate component of the insurance contract liabilities under the foreign currency translation reserve.

(j) Product classification

An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. For purpose of FRS 4 on "Insurance Contracts", the Company defines insurance risk to be significant when the benefits payable on the occurrence of the insured event are 5% or more than the benefits payable if the insured event did not occur at any one point of the insurance contract. Based on this definition, all policy contracts issued by the Company, including investment-linked contracts, are considered insurance contracts as at the date of the statement of financial position. The investment components of the investment-linked contracts are not unbundled.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Product classification (continued)

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

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

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

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

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

(k) Reinsurance

The Company cedes insurance risk in the normal course of business for its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Reinsurance (continued)

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(l) Life insurance underwriting results

(i) Transfer of life fund surplus to Shareholders' fund

The surplus transferable from the Life fund to the profit or loss is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders made in accordance with the provisions of the Insurance Act, 1996.

(ii) Gross premiums

Premium income includes premium recognised in the Life fund and the investment-linked funds. Premium income of the Life fund is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured.

Premium income of the investment-linked funds is in respect of the net creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on a receipt basis.

(iii) Reinsurance premiums

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relates.

(iv) Commission and agency expenses

Commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, net of income derived from reinsurers in the course of ceding of premium to reinsurers, are charged to the profit or loss in the financial year in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Life insurance underwriting results (continued)

(v) <u>Benefits, claims and expenses</u>

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or when the insurer is notified.

Recoveries on reinsurance claims are accounted for in the same financial year as the original claims are recognised.

Benefits and claims for claims arising on life insurance policies including settlement costs, less reinsurance recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

(a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and

(b) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

(m) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost and impairment loss is calculated under the same method used for these financial assets as set out in note 2(g)(i) on impairment.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in note 2(d)(ii), have been met.

(n) Assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Taxation

Income tax on profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of taxable profits for the financial year and is measured using the tax rates that have been enacted at the reporting date. Current tax is recognised in the profit or loss.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised. Deferred tax assets are reviewed at the end of each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or when the deferred tax liability is settled. Deferred tax is recognised in the profit or loss except when it arises from a transaction which is recognised in other comprehensive income or directly in equity or directly in the insurance contract liabilities, in which case, the deferred tax is also charged or credited to other comprehensive income or directly in equity or directly in the insurance contract liabilities.

(p) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank balances and deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

(q) Other revenue recognition

Interest income is recognised using the effective interest rate method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

Other interest income including the amount of amortisation of premiums and accretion of discounts is recognised on a time proportion basis that takes into account the effective yield of the assets.

Dividend income is recognised in the financial statements when the right to receive payment is established.

Rental income from investment properties are recognised on a straight line basis over the term of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Other revenue recognition (continued)

Realised gains and losses recorded in the profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(r) Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability in the financial year in which it is declared and approved by the Company's shareholders.

(s) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but disclose its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but disclose their existence where inflows of economic benefits are probable, but not virtually certain.

(t) Insurance contract liabilities

(i) <u>Actuarial liabilities</u>

Actuarial liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by the gross premium valuation method, a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies.

The liability in respect of policies of a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the fund level.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the accumulated amount, as declared to the policy owners, are set as the liabilities if the accumulated amount is higher than the figure as calculated using the prospective actuarial valuation method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Insurance contract liabilities (continued)

(i) <u>Actuarial liabilities</u> (continued)

Where policies or extensions of a policy are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

In the case of a 1-year life policy or a 1-year extension to a life policy covering contingencies other than death or survival, the liability for such life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company.

The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised insurance contract liabilities are adequate, net of present value of in-force business ("PVIF") by using an existing liability adequacy test.

Any inadequacy is recorded in the profit or loss, initially by impairing PVIF, and subsequently by establishing technical reserves for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

(ii) <u>Unallocated surplus</u>

Surpluses of contract under the participating fund are attributable to policyholders and shareholders and the amount and timing of distribution to both the policyholders and shareholders are determined by an actuarial valuation of the long term liabilities to policyholders at the date of the statement of financial position and is made in accordance with the provision of the Insurance Act, 1996 and related regulation by the Company's Appointed Actuary.

Surpluses of contract under the non-participating fund are attributable wholly to the shareholders and the amount and timing of distribution to the shareholders is subject to the recommendation of the Company's Appointed Actuary.

As required by the Guidelines on Financial Reporting for Insurers issued by BNM, unallocated surplus of both participating and non-participating funds where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

(iii) <u>AFS fair value reserves</u>

Fair value gains and losses of AFS financial assets of the insurance business are reported as a separate component of insurance contract liabilities until the AFS financial assets are derecognised or the financial assets are determined to be impaired.

As required by the Guidelines on Financial Reporting for Insurers issued by BNM, AFS fair value reserve is held within the insurance contract liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Insurance contract liabilities (continued)

(iv) Net asset value attributable to unit holders

The unit liability of investment-linked policy is equal to the net asset value of the investment-linked funds, which represents net premium received and investment returns credited to the policy less deduction for mortality, morbidity costs and expense charges.

(v) Foreign currency translation reserve

All resulting foreign exchange differences arising from the translation of assets and liabilities of the investment-linked business from functional currency to presentation currency of the Company, are reported as a separate component of the insurance contract liabilities as required by the Guidelines on Financial Reporting for Insurers issued by BNM.

3 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Company's accounting policies, the Company makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events and reinsurance premium levels that are believed to be reasonable with the knowledge and information then available. Best estimates assumptions are constantly reviewed to ensure that they remain relevant and valid.

The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future are discussed below.

Valuation of actuarial liabilities

The valuation of the ultimate liability arising from policy benefits made under life insurance contracts is the Company's most critical accounting estimate. The assumptions in relation to mortality, morbidity, longevity, investment returns, expenses, lapses, surrender rates and discount rates are used for calculating the liabilities during the life of the contract. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. Actual experience is monitored to assess whether the assumptions remain appropriate and assumptions are changed as warranted. Any movement in the key assumptions will have an effect in determining the actuarial liabilities. All contracts are subject to a liability adequacy test, which reflect management's best current estimate.

3 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Valuation of actuarial liabilities (continued)

The key assumptions used in the estimation of actuarial liabilities are as follows:

Interest rate

The discount rates used for the valuation of non-participating fund, the non-unit liabilities of the investment-linked funds and the guaranteed benefits liabilities of the participating fund, were changed from the weighted average to spot Malaysia Government bond yields in accordance with BNM's circular "BNM/RH/CIR 003-29: Removal of Temporary Flexibility for Life Insurers under the Risk-Based Capital Framework for Insurers". The rates used are described as below:-

(i) For cash flows with duration of less than 15 years, Malaysia Government Bond zero coupon spot yields of matching duration are used; and
(ii) For cash flows with duration of 15 years or more, Malaysia Government Bond zero coupon spot yields of 15 years to maturity are used; and

where duration is the term to maturity of each future cash flow.

The zero coupon spot yields are obtained from Bond Pricing Agency Malaysia Sdn. Bhd., a bond pricing agency approved by BNM.

For the valuation of total benefits liabilities of the participating fund, the net fund based yields are used. The net fund based yields for the ordinary life participating fund and annuity fund were changed from 5.92% and 5.52% respectively to the following interest rate vectors in the current financial year.

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021+
Ordinary Par	4.95%	5.04%	5.12%	5.21%	5.30%	5.38%	5.47%	5.56%	5.64%	5.73%
Annuity Par	4.90%	5.01%	5.13%	5.24%	5.35%	5.46%	5.58%	5.69%	5.80%	5.92%

The change in the net fund based yields is intended to reflect the current low interest rate environment and volatility in the equity market.

Mortality, morbidity, critical illness, expenses, lapse and surrenders

The Company updated its mortality and morbidity tables in the current financial year to reflect the current and expected future claims experience. The new tables are established industry and Malaysian tables which reflect historical experiences, adjusted where appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate. In the current financial year, the Company has changed the future expense assumptions to reflect the current sales and budget planned. A new expense assumption for the levy by Malaysia Deposit Insurance Corporation (or Perbadanan Insurans Deposit Malaysia, "PIDM") was added. The rate is 6 basis points per annum of the actuarial valuation of the insurance contract liabilities.

Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

For the non-participating fund, the non-unit liabilities of the investment-linked funds and the guaranteed benefits liabilities of the participating fund, provision for risk of adverse deviation "PRAD" assumptions are added to the best estimates assumptions.

For the valuation of total benefit liabilities of the participating fund, the best estimates assumptions are used.

4 PROPERTY AND EQUIPMENT

	Building	Work in progress	Furniture, fittings and equipment	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost					
At 1 January 2010	-	-	12,229	154	12,383
Additions	-	-	932	-	932
Transfer to a related company	-	-	(428)	-	(428)
Write off	-	-	(40)	-	(40)
At 31 December 2010 / 1 January 2011	-	-	12,693	154	12,847
Additions	-	50	1,577	107	1,734
Transfer from investment properties (note 5)	4,337	-	-	-	4,337
Disposals	-	-	(16)	-	(16)
Transfer to immediate holding company	-	-	(2)	-	(2)
Write off	-	-	(200)	-	(200)
At 31 December 2011	4,337	50	14,052	261	18,700
Accumulated depreciation					
At 1 January 2010	-	-	7,192	82	7,274
Charge for the financial year	-	-	1,133	19	1,152
Transfer to a related company	-	-	(125)	-	(125)
Write off	-	-	(37)	-	(37)
At 31 December 2010 / 1 January 2011	-	-	8,163	101	8,264
Charge for the financial year	-	-	1,087	20	1,107
Disposals	-	-	(11)	-	(11)
Transfer to immediate holding company	-	-	(2)	-	(2)
Write off	-	-	(73)	-	(73)
At 31 December 2011	-	-	9,164	121	9,285
Carrying amount					
At 31 December 2011	4,337	50	4,888	140	9,415
At 31 December 2010	-	-	4,530	53	4,583

As at the reporting date, the title of the freehold properties is registered in the name of the immediate holding company. The immediate holding company is in the process of arranging for the title of the respective floors to be registered in the name of the Company in accordance with Section 48(1) of the Insurance Act, 1996.

The net book value of revalued building had these assets been carried at cost less accumulated depreciation is as follows:

	2011	2010
	RM'000	RM'000
Building	3,652	-

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

5 INVESTMENT PROPERTIES

	2011 RM'000	2010 RM'000
At 1 January	51,215	47,990
Transfer to self-occupied properties (note 4)	(4,337)	-
Fair value gain (note 21)	1,755	3,225
At 31 December	48,633	51,215
Represented by:		
Freehold properties	48,633	51,215

In 2011, the Company has carried out a valuation of the properties based on the investment method conducted by an independent qualified valuer, Mr Foo Gee Jen (B.Surv (Hons) Prop.Mgt.,MISM) of C H Williams Talhar & Wong Sdn Bhd. The valuation of these properties was adopted by the directors for the financial year ended 31 December 2011.

As at the reporting date, the title of the investment properties is registered in the name of the immediate holding company. The immediate holding company is in the process of arranging for the title of the respective floors to be registered in the name of the Company in accordance with Section 48(1) of the Insurance Act, 1996.

The following are amounts arising from investment properties that have been recognised in the profit or loss during the financial year:

	2011 RM'000	2010 RM'000
Rental income	3,874	3,821
Direct operating expenses arising from investment properties that generate rental income	(1,310)	(1,213)
Direct operating expenses arising from investment properties that did not generate rental income	(264)	(257)

6 INTANGIBLE ASSETS

	2011 RM'000	2010 RM'000
Cost		
At 1 January/31 December	491	491
Accumulated amortisation		
At 1 January	307	184
Charge for the financial year	123	123
At 31 December	430	307
Carrying amount	61	184

Intangible assets represent the cost of software rights acquired/developed.

7 LOANS AND RECEIVABLES

		2011 RM'000	2010 RM'000
Loan receivables:			
Policy loans		323,088	340,372
Mortgage loans		3,134	1,009
Secured loans		-	15,288
Staff loans		293	367
		326,515	357,036
Allowance for impairment loss		(84)	(84)
	(i)	326,431	356,952
Fixed and called deposits with licensed banks in Malaysia		160,607	166,274
Accrued interest		66	1,119
	(ii)	160,673	167,393
Other receivables:			
Accrued dividend income		1,392	1,652
Accrued rental income		88	74
Deposits		511	421
Other debtors		4,915	13,455
	(iii)	6,906	15,602
Prepayments	(iv)	333	440
Total		494,343	540,387

	2011 RM'000	2010 RM'000
(i) Loan receivables:		
Receivable within 12 months	698	856
Receivable after 12 months	325,733	356,096
	326,431	356,952
(ii) Fixed and called deposits:		
Receivable within 12 months	111,075	132,892
Receivable after 12 months	49,598	34,501
	160,673	167,393
(iii) Other receivables:		
Receivable within 12 months	6,516	15,212
Receivable after 12 months	390	390
	6,906	15,602
(iv) Prepayments:		
Receivable within 12 months	333	440

The carrying amounts of other receivables approximate the fair values due to the relatively short term maturity of these balances.

8 FINANCIAL ASSETS

(a) Available-for-sale

	2011 RM'000	2010 RM'000
Equity securities		
- Quoted in Malaysia	660,610	618,305
- Unquoted	1,944	1,944
Real estate investment trusts		
- Quoted in Malaysia	1,467	-
Unit trust funds	82,830	81,765
Malaysian Government Securities	632,887	522,447
Government Investment Issues	97,109	84,777
Corporate debt securities		
- Unquoted	773,411	716,112
Accrued interest	12,769	11,831
	2,263,027	2,037,181
Current	855,011	731,772
Non-current	1,408,016	1,305,409
	2,263,027	2,037,181

8 FINANCIAL ASSETS (CONTINUED)

(b) Fair value through profit or loss - designated upon initial recognition

	2011 RM'000	2010 RM'000
Equity securities		
- Quoted in Malaysia	203,037	188,983
Malaysian Government Securities	140,807	116,315
Government Investment Issues	18,338	15,270
Corporate debt securities		
- Unquoted	201,571	196,712
Equity call options		
- Unquoted	-	5,723
Mutual funds		
- Quoted outside Malaysia	90,105	102,709
Negotiable instrument of deposits	-	45,373
Accrued interest	2,707	2,466
	656,565	673,551
Current	367,184	398,286
Non-current	289,381	275,265
	656,565	673,551

8 FINANCIAL ASSETS (CONTINUED)

(c) Carrying value of financial assets

	Available for sale	Fair value through profit and loss	Total
	RM'000	RM'000	RM'000
At 1 January 2010	1,736,063	669,077	2,405,140
Purchases	507,330	424,029	931,359
Disposals	(337,781)	(435,257)	(773,038)
Fair value gains recorded in:			-
Profit or loss (note 21)	-	25,371	25,371
Other comprehensive income	5,979	-	5,979
Insurance contract liabilities (note 12)	120,269	-	120,269
Accretion of discounts, net of amortisation of premiums (note 19)	4,640	2,461	7,101
Unrealised exchange loss	-	(11,640)	(11,640)
Movement in accrued interest	681	(490)	191
At 31 December 2010/1January 2011	2,037,181	673,551	2,710,732
Purchases	561,328	565,890	1,127,218
Maturities	(13,485)	(14,842)	(28,327)
Disposals	(303,213)	(551,779)	(854,992)
Fair value losses recorded in:			
Profit or loss (note 21)	-	(22,477)	(22,477)
Other comprehensive income	(77)	-	(77)
Insurance contract liabilities (note 12)	(18,538)	-	(18,538)
Allowance for impairment losses (note 21)	(4,932)	-	(4,932)
Accretion of discounts, net of amortisation of premiums (note 19)	3,825	2,299	6,124
Unrealised exchange gain	-	3,682	3,682
Movement in accrued interest	938	241	1,179
At 31 December 2011	2,263,027	656,565	2,919,592

9 INSURANCE RECEIVABLES

	2011	2010
	RM'000	RM'000
Due premiums including agents' balances	28,187	25,514
Due from reinsurers and cedants	-	117
	28,187	25,631
Allowance for impairment loss	(1,064)	(1,119)
	27,123	24,512
Current	27,123	24,512

10 SHARE CAPITAL

	2011		2010	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000	RM'000	'000	RM'000
Authorised:				
Ordinary shares of 50 sen each:				
At 1 January/31 December	1,000,000	500,000	1,000,000	500,000
Issued and fully paid up:				
Ordinary shares of 50 sen each:				
At 1 January/31 December	300,000	150,000	300,000	150,000

No new ordinary shares were issued by the Company during the financial year.

11 RESERVES

		2011	2010
		RM'000	RM'000
Non distributable:			
Fair value reserve	(i)	10,252	10,310
Distributable:			
Retained earnings	(ii)	174,965	112,644
		185,217	122,954

(i) Fair value reserve is in respect of fair value gains or losses on available-for-sale financial assets, net of deferred tax, held by the Shareholders' fund.

(ii) Under the single tier system, there are no restrictions on the Company to frank the payment of dividends out of its entire retained earnings as at the date of the statement of financial position.

12 INSURANCE CONTRACT LIABILITIES

	Gross		Net	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Actuarial liabilities	2,196,474	1,922,955	2,196,474	1,922,955
Unallocated surplus	62,461	262,646	62,461	262,646
Available-for-sale fair value reserve	152,297	168,392	152,297	168,392
Investment-linked policyholders' account	373,481	409,432	373,481	409,432
Foreign currency translation reserve on investment-linked policyholders' account	(7,449)	(10,084)	(7,449)	(10,084)
	2,777,264	2,753,341	2,777,264	2,753,341
Current	577,598	843,792	577,598	843,792
Non-current	2,199,666	1,909,549	2,199,666	1,909,549
	2,777,264	2,753,341	2,777,264	2,753,341

The insurance contract liabilities and its movements are further analysed as follows:

	Gross		Net	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
At 1 January	2,753,341	2,553,189	2,753,341	2,553,189
Inforce reserve movement	87,675	74,682	87,675	74,682
New business reserve	(12,452)	(16,808)	(12,452)	(16,808)
Discount rate and other changes	198,296	2,793	198,296	2,793
Unallocated surplus	(200,185)	(3,378)	(200,185)	(3,378)
Investment-linked policyholders' account	(35,951)	42,393	(35,951)	42,393
Foreign currency translation reserve on investment-linked policyholders' account	2,635	(10,268)	2,635	(10,268)
Available-for-sale fair value reserves				
- gross movement (note 8 (c))	(18,538)	120,269	(18,538)	120,269
- deferred tax effects (note 14)	2,443	(9,531)	2,443	(9,531)
At 31 December	2,777,264	2,753,341	2,777,264	2,753,341

Deferred tax liabilities associated with the unallocated surplus of the Life fund upon transfer to Shareholders' fund as recommended by the Appointed Actuary, are included within the unallocated surplus as at the financial year end.

13 INSURANCE CLAIMS LIABILITIES

	2011	2010
	RM'000	RM'000
Provision for outstanding claims	35,372	28,885
Current	35,372	28,885

14 DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

	2011 RM'000	2010 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	19,558	24,429
Current	11,802	17,574
Non-current	7,756	6,855
	19,558	24,429

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

	Revaluation - Investment properties RM'000	Accelerated depreciation RM'000	Revaluation - Investments RM'000	Total RM'000
Deferred tax (liabilities)/assets				
At 1 January 2010	(25)	(307)	(10,868)	(11,200)
Recognised in:				
Profit or loss:				
- Other operating expenses (note 24)	(258)	(14)	(1,932)	(2,204)
Other comprehensive income	-	-	(1,494)	(1,494)
Insurance contract liabilities (note 12)	-	-	(9,531)	(9,531)
At 31 December 2010/ 1 January 2011	(283)	(321)	(23,825)	(24,429)
Recognised in:				
Profit or loss:				
- Other operating expenses (note 24)	(107)	(71)	2,587	2,409
Other comprehensive income	-	-	19	19
Insurance contract liabilities (note 12)	-	-	2,443	2,443
At 31 December 2011	(390)	(392)	(18,776)	(19,558)

15 INSURANCE PAYABLES

	2011 RM'000	2010 RM'000
Due to reinsurers and cedants	1,983	1,614
Due to agents	5,191	4,146
Due to insureds	321,287	288,354
	328,461	294,114
Current	328,461	294,114

The carrying amounts disclosed above approximate the fair values as at the end of the financial year.

16 OTHER PAYABLES

	2011 RM'000	2010 RM'000
Other creditors	15,386	22,935
Accrued liabilities	12,475	20,058
Amount due to immediate holding company	6,749	3,738
	34,610	46,731

The amount due to immediate holding company is unsecured, interest free and repayable on demand. The carrying amounts disclosed above approximate the fair values as at the end of the financial year. All amounts are payable within one year.

17 OPERATING REVENUE

	2011 RM'000	2010 RM'000
Gross premium	487,905	467,016
Investment income (note 19)	140,227	135,264
	628,132	602,280

18 NET EARNED PREMIUMS

	2011 RM'000	2010 RM'000
First year premium	61,445	67,918
Renewal year premium	409,083	382,101
Single premium	6,795	6,478
	477,323	456,497

19 INVESTMENT INCOME

	2011 RM'000	2010 RM'000
Financial assets at FVTPL - designated upon initial recognition		
Interest/profit sharing income	14,654	13,621
Dividend income	7,077	5,970
Accretion of discounts, net of amortisation of premiums	2,299	2,461
AFS financial assets		
Interest income	58,464	52,473
Dividend income	20,263	20,862
Accretion of discounts, net of amortisation of premiums	3,825	4,640
LAR		
Interest/profit income	26,240	27,516
Accretion of discounts, net of amortisation of premiums	2,201	2,088
Investment properties		
Rental income	3,874	3,821
Cash and bank balances		
Interest/profit sharing income	1,330	1,812
	140,227	135,264

20 NET REALISED GAINS

	2011 RM'000	2010 RM'000
Property and equipment		
Realised losses	(4)	-
AFS financial assets		
Realised gains:		
Equity securities - quoted in Malaysia	47,274	27,819
Debt securities	2,659	295
Realised losses:		
Equity securities - quoted in Malaysia	(56)	-
Debt securities	-	(10)
Total net realised gains for AFS financial assets	49,877	28,104
Total net realised gains	49,873	28,104

21 NET FAIR VALUE (LOSSES)/GAINS

	2011 RM'000	2010 RM'000
Investment properties		
Unrealised fair value gains (note 5)	1,755	3,225
Financial assets at FVTPL – designated upon initial recognition		
Fair value gains		
Realised	19,500	33,844
Unrealised (note 8(c))	3,050	25,371
Fair value losses		
Realised	(4,377)	(44)
Unrealised (note 8(c))	(25,527)	-
Net fair value (losses)/gains on financial assets at FVTPL – designated upon initial recognition	(7,354)	59,171
Available-for-sale financial assets		
Impairment losses on quoted equities (note 8(c))	(4,932)	-
Total net fair value (losses)/gains	(10,531)	62,396

22 MANAGEMENT EXPENSES

	2011 RM'000	2010 RM'000
Staff costs (note 22 (a))	18,463	15,323
Directors' remuneration: (note 22 (b))		
- Fees	45	23
- Other emoluments	1,760	1,226
Auditors' remuneration:		
- Statutory audit	308	297
- Under accrual in respect of prior financial year	-	100
Office rental payable to:		
- Immediate holding company	737	679
- Others	716	643
Depreciation of property and equipment (note 4)	1,107	1,152
Amortisation of intangible assets (note 6)	123	123
Property and equipment written off (note 4)	127	3
Reversal of allowance for impairment loss	(55)	-
Credit card charges	1,987	1,862
Fund management expenses	1,539	1,320
Information technology outsourcing expenses	2,815	2,310
Marketing and advertising expenses	1,592	711
PIDM levy	1,154	-
Printing and stationery expenses	1,008	849
Postage and courier charges	1,083	1,031
Outsourcing fees	989	1,141
Other expenses	8,663	7,736
	44,161	36,529

(a) Staff costs

	2011 RM'000	2010 RM'000
Staff costs	16,420	13,492
Retirement benefits contributions	1,958	1,831
Share-based payments	85	-
Total staff costs	18,463	15,323

The retirement benefits contributions of the Company were made to the defined contribution plan as mentioned in note 2(h)(ii) to the financial statements.

Share-based payments incurred during the financial year relates to the share-based compensation granted to employees as mentioned in note 2 (h)(iii) to the financial statements.

22 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

The aggregate amount of emoluments received or receivable by directors of the Company during the financial year are as follows:-

	2011 RM'000	2010 RM'000
Executive director:		
Salaries	864	670
Bonus	319	165
Contribution to defined contribution plan	61	66
Share options expenses	58	-
RSU expenses	169	-
Benefits in kind	256	293
	1,727	1,194
Non-executive directors:		
Fees	45	23
Meeting allowances	33	32
	78	55
Total	1,805	1,249
Represented by:		
Directors' fees	45	23
Directors' emoluments	1,504	933
Benefits in kind	256	293
	1,805	1,249

The number of executive and non-executive directors whose total remuneration received or receivable during the financial year are analysed by the following bands:

	Number of directors 2011	2010
Executive directors:		
RM100,001- RM1,800,000	1	2
Non-executive directors:		
Below RM18,000	9	7

22 MANAGEMENT EXPENSES (CONTINUED)

(c) Details of remuneration received or receivable by the Chief Executive Officer during the financial year are as follows:

	2011	2010
	RM'000	RM'000
Salaries	864	670
Bonus	319	165
Contribution to defined contribution plan	61	66
Share options expenses	58	-
RSU expenses	169	-
Benefits in kind	256	293
	1,727	1,194

23 SHARE-BASED PLAN

Restricted share units ("RSU") are granted to certain employees of Manulife Financial Corporation Group as part of the annual performance reward cycle and has a vesting period of over 35 months from grant date. Each RSU entitles the recipient to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions. These RSU expenses are paid out in cash at the end of the vesting period.

Expenses arising from the share-based payment transactions recognised during the financial year as part of the employee benefit expense were as follows:

		2011	2010
		RM'000	RM'000
Share option expenses	(i)	58	-
RSU expenses	(ii)	254	-
		312	-

(i) Equity-settled share-based compensation

Share options are granted to employees of Manulife Financial Corporation Group and has a vesting period of over 48 months. Each share options provide the holder with the right to purchase shares of Manulife Financial Corporation Group at the exercise price, determined by the market price at the end of the day before the award is granted, and will expire after 10 years from the grant date.

(ii) Cash-settled share-based compensation

Restricted share units ("RSU") are granted to certain employees of Manulife Financial Corporation Group as part of the annual performance reward cycle and has a vesting period of over 35 months from grant date. Each RSU entitles the recipient to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions. These RSU expenses are paid out in cash at the end of the vesting period.

24 OTHER OPERATING EXPENSES

		2011 RM'000		2010 RM'000
Foreign exchange losses		8		1,667
Interest on agent's bond withheld		41		36
Tax expense on investment income of Life fund and investment-linked funds:				
- Current tax	11,842		14,312	
- Deferred tax (note 14)	(2,409)		2,204	
		9,433		16,516
		9,482		18,219

The income tax for the Life fund and investment-linked funds of the insurance business is calculated based on the tax rate of 8% (2010: 8%) of the assessable investment income, net of allowable deductions for the financial year.

25 TAXATION

	2011 RM'000	2010 RM'000
Current tax		
Current financial year	13,843	15,655
Over provision in prior financial years	(456)	(685)
	13,387	14,970

The current income tax for the Company is calculated based on the tax rate of 25% (2010: 25%) of the estimated assessable profit for the financial year.

25 TAXATION (CONTINUED)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	2011 RM'000	2010 RM'000
Profit before taxation	75,708	74,470
Taxation at Malaysia statutory tax rate of 25% (2010: 25%)	18,927	18,618
Section 110B tax credit set off	(5,063)	(3,065)
Income not subject to tax	(130)	(79)
Expenses not deductible for tax purposes	109	181
	13,843	15,655
Over provision prior in financial years	(456)	(685)
Tax expense	13,387	14,970

26 BASIC EARNINGS PER SHARE

Basic earnings per share of the Company is calculated by dividing the net profit attributable to ordinary equity holders of the Company for the financial year over the weighted average number of ordinary shares in issue during the financial year.

	2011	2010
Profit attributable to ordinary equity holders (RM'000)	62,321	59,500
Weighted average number of shares in issue ('000)	300,000	300,000
Basic earnings per share (sen)	20.77	19.83

The Company has no potential dilutive ordinary shares in issue as at the date of the statement of financial position and therefore, diluted earnings per share has not been presented.

27 DIVIDENDS

Since the end of the previous financial year, no dividend payment has been made in respect of the financial year ended 31 December 2010.

No dividend payment is recommended for the financial year ended 31 December 2011.

28 ADJUSTMENTS FOR NON-CASH ITEMS

Non-cash items in the statement of cash flows comprise of:

	2011 RM'000	2010 RM'000
Life fund surplus after taxation	101,382	164,801
Transfer of life fund surplus to profit or loss	(63,999)	(65,121)
Interest income	(100,688)	(95,422)
Dividend income	(27,340)	(26,832)
Rental income	(3,874)	(3,821)
Accretion of discounts, net of amortisation premium	(8,325)	(9,189)
Loss on disposal of property and equipment	4	-
Gains on disposal of AFS financial assets	(49,877)	(28,104)
Fair value gain on investment properties	(1,755)	(3,225)
Fair value losses/(gains) on FVTPL financial assets	7,354	(59,171)
Impairment losses on AFS financial assets	4,932	-
Depreciation of property and equipment	1,107	1,152
Amortisation of intangible assets	123	123
Property and equipment written off	127	3
Transfer of property and equipment to a related company	-	303
Tax on investment income of Life fund and Investment-linked funds	9,433	16,516
Taxation	13,387	14,970
Unrealised exchange (gains)/losses	(1,048)	1,373
Reversal of allowance for impairment loss	(55)	-
	(119,112)	(91,644)

29 SIGNIFICANT RELATED PARTY DISCLOSURES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Company has related party relationship with its holding companies, subsidiaries and associates. The related parties of, and their relationship with the Company, other than subsidiaries, are as follows:

Name of company	Country of incorporation	Relationship
Manulife Financial Corporation ("MFC")	Canada	Ultimate holding company
Manulife Financial Asia Limited ("MFAL")	Hong Kong	Intermediate holding company
Manulife Holdings Berhad ("MHB")	Malaysia	Immediate holding company
Britama Properties Sdn Bhd	Malaysia	Subsidiary of MHB
Manulife Asset Management (Malaysia) Sdn Bhd	Malaysia	Subsidiary of MHB
Manulife Unit Trusts Berhad	Malaysia	Subsidiary of MHB
Manulife Technology and Services Sdn Bhd	Malaysia	Subsidiary of ultimate holding company
Manulife Data Services Inc.	Philippines	Subsidiary of ultimate holding company

In the normal course of business, the Company undertakes various transactions with other companies deemed related parties by virtue of being subsidiary and associated companies of MFC, collectively known as the MFC Group.

Related parties also include key management personnel. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel of the Company include the executive director and certain members of senior management of the Company.

29 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under negotiated terms with the respective parties. The significant related party transactions during the financial year between the Company and their related parties are set out below:

	2011 RM'000	2010 RM'000
Intermediate holding company		
Reimbursement of software maintenance expenses	408	313
Reimbursement of personnel expenses	1,353	1,675
Subsidiaries of ultimate holding company		
Rental income	(482)	(486)
Outsourced information technology service expenses	2,815	2,310
Outsourcing fee for health service call centre and administrative service	458	434
Subsidiaries of the holding company		
Outsourcing fee income	(132)	(132)
Rental income	(431)	(397)
Fund management fee expenses	7,088	5,311
Management fees and maintenance charges	99	155
Immediate holding company		
Outsourcing fee expenses	1,121	1,273
Rental expenses	737	679

Key management personnel

The total compensation paid and payable to the Company's key management personnel are as follows:

	2011 RM'000	2010 RM'000
Salaries and other short-term employee benefits	4,073	3,451
Retirement benefits contribution (i)	152	147
Share options expenses (ii)	58	-
RSU expenses (ii)	254	-
	4,537	3,598

(i) The retirement benefits contributions were made to the defined contribution plan as mentioned in note 2(h)(ii) to the financial statements.

(ii) The share-based payments incurred during the financial year relates to the share-based compensation granted to employees as mentioned in note 2(h)(iii) to the financial statements

Significant related party balances

Related party balances outstanding for the Company which are included in the notes to the financial statements are as follows:

	2011 RM'000	2010 RM'000
Other payables (note 16)		
- Amount due to immediate holding company	6,749	3,738

30 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:
i) Available-for-sale ("AFS");
ii) Fair value through profit or loss - designated upon initial recognition ("FVTPL");
iii) Loans and receivables excluding prepayments ("LAR"); and
iv) Other financial liabilities measured at amortised cost ("OL").

	AFS	FVTPL	LAR	OL	Total
2011	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets					
Loans and receivables	-	-	494,010	-	494,010
AFS financial assets	2,263,027	-	-	-	2,263,027
FVTPL financial assets	-	656,565	-	-	656,565
Reinsurance assets	-	-	3,021	-	3,021
Insurance receivables	-	-	27,123	-	27,123
Cash and bank balances	-	-	24,259	-	24,259
	2,263,027	656,565	548,413	-	3,468,005
Financial liabilities					
Insurance contract liabilities	-	-	-	2,777,264	2,777,264
Insurance claims liabilities	-	-	-	35,372	35,372
Insurance payables	-	-	-	328,461	328,461
Other payables	-	-	-	34,610	34,610
	-	-	-	3,175,707	3,175,707

	AFS	FVTPL	LAR	OL	Total
2010	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000
Financial assets					
Loans and receivables	-	-	539,947	-	539,947
AFS financial assets	2,037,181	-	-	-	2,037,181
FVTPL financial assets	-	673,551	-	-	673,551
Reinsurance assets	-	-	2,368	-	2,368
Insurance receivables	-	-	24,512	-	24,512
Cash and bank balances	-	-	89,526	-	89,526
	2,037,181	673,551	656,353	-	3,367,085
Financial liabilities					
Insurance contract liabilities	-	-	-	2,753,341	2,753,341
Insurance claims liabilities	-	-	-	28,885	28,885
Insurance payables	-	-	-	294,114	294,114
Other payables	-	-	-	46,731	46,731
	-	-	-	3,123,071	3,123,071

30 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Determination of fair values

The fair values of the Company's financial assets and financial liabilities are determined as follows:

(i) The carrying amounts of financial assets and financial liabilities, such as loans and receivables, insurance receivables, cash and bank balances, insurance payables and other payables are reasonable approximation of their fair values due to the relatively short term maturity of these balances;

(ii) The fair values of quoted equities are based on quoted market prices as at the reporting date;

(iii) The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate debt securities are based on indicative market prices;

(iv) The fair values of negotiable instrument of deposits are calculated using the discounted cash flow method based on the maturity of the instruments at discount rates representing the average market rates quoted by at least two licensed banks;

(v) The fair values of equity call options are based on the fair value quoted by a counter party based on a specific valuation model as at the reporting date; and

(vi) The fair values of investments in mutual funds, unit trust funds and real estate investment trusts are based on the net asset values of the underlying funds as at the reporting date.

(c) Fair value hierarchy

The Company categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Company's valuation techniques for determining the fair value of the financial instruments.

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

Level 1 – Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc) and inputs that are derived from or corroborated by observable market data.

Level 3 – Fair value measurements using significant non market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk.

30 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

In determining the fair value of its financial instruments, the Company uses observable market data, when available, and minimises the use of unobservable inputs to the extent possible when determining fair value.

The following table presents the Company's financial assets that are carried at fair value as at 31 December 2011.

Comparative figures have not been presented for 31 December 2010 by virtue of the exemption allowed by paragraph 44G of FRS 7 "Financial Instruments: Disclosures".

	Carrying amount	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	RM'000
2011				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	660,610	660,610	-	-
- Unquoted	1,944	-	-	1,944
Real estate investment trusts	1,467	1,467	-	-
- Quoted in Malaysia				
Unit trust funds	82,830	82,830	-	-
Malaysian Government Securities	632,887	-	632,887	-
Government Investment Issues	97,109	-	97,109	-
Corporate debt securities				
- Unquoted	773,411	-	773,411	-
Accrued interest	12,769	-	12,769	-
FVTPL financial assets				
Equity securities				
- Quoted in Malaysia	203,037	203,037	-	-
Malaysian Government Securities	140,807	-	140,807	-
Government Investment Issues	18,338		18,338	-
Corporate debt securities				
- Unquoted	201,571	-	201,571	-
Mutual funds				
- Quoted outside Malaysia	90,105	90,105	-	-
Accrued interest	2,707	-	2,707	-
	2,919,592	1,038,049	1,879,599	1,944

31 RISK MANAGEMENT

(a) Risk management framework

The Company's risk taking activities are undertaken with the understanding that risk taking and effective risk management are necessary and integral to achieving strategic objectives and managing business operations. The Company seeks to strategically optimise risk taking and risk management to support long term revenue and earnings growth and shareholder's value growth. This is done by:

- capitalising on business opportunities that are aligned with the Company's overall risk appetite and return expectations;
- identifying, measuring and assessing, monitoring and reporting on principal risks taken; and
- proactively executing effective risk controls and mitigation programmes.

The risk governance structure is designed to foster a strong and well-informed risk culture across the Company and to facilitate sound business decisions.

The Board of Directors ("the Board"), through the immediate holding company's Group Audit Committee and Group Risk Management Committee, has overall responsibility for overseeing the Company's risk taking activities and risk management programmes. At the management level, detailed risk management and oversight activities are undertaken by the following management committees comprising the Chief Executive Officer and key senior management executives:

– Executive Management Team ("EMT")
– Asset-Liability Committee ("ALCO")
– Investment Committee ("IC")

EMT is responsible for providing leadership, direction and oversight with regards to all matters of the Company. The EMT is also responsible for ensuring all risk exposures arising from the operations are thoroughly identified, assessed and measured, monitored and reported on, and controlled and mitigated in a manner consistent with the risk policies and standards of practice. The EMT is supported by the Senior Management Team ("SMT").

The mandate of the ALCO is to monitor the asset-liability risks of the Company's insurance operations. This includes identification, assessment, management of asset liability risks, establishment of asset liability policies and procedures, implementation of policies and procedures and oversight of the Company's asset liability activities. The ALCO is part of the Enterprise Risk Management Framework.

The IC monitors on a monthly basis, the implementation of investment policies approved by the Board and reviews the policies with the consideration of changes in business environment and economic outlook. The results of the investment activities are reported to the Board regularly.

31 RISK MANAGEMENT (CONTINUED)

(b) Regulatory framework

The Company is required to comply with the Insurance Act, 1996 and Insurance Regulations, 1996 as well as guidelines and circulars issued by BNM.

(c) Capital management

The Company manages its capital with the following objectives:

- To maintain the required level of stability of the Company, thereby providing a degree of security to policyholders;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulator and stakeholders;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets; and
- To maintain strong and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company is required to comply with the capital requirement under the Risk-Based Capital Framework ("the Framework") prescribed by BNM. The Framework requires each insurer to maintain a capital adequacy level that is commensurate with its risk profiles. The minimum capital requirement under the Framework is 130% for each insurance entity.

The Company has fully complied with the capital requirement prescribed by BNM during the reported financial year.

The capital structure of the Company as at 31 December 2011, as prescribed under the Framework is as follows:

	2011 RM'000	2010 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	150,000	150,000
Retained earnings of the Company	174,965	112,644
Eligible contract liabilities	727,402	905,286
	1,052,367	1,167,930
Eligible Tier 2 Capital		
Eligible reserves	162,550	178,702
Amounts deducted from capital	(487)	-
Total Capital Available	1,214,430	1,346,632

31 RISK MANAGEMENT (CONTINUED)

(d) Insurance risk

Insurance risk is the risk of loss due to actual experience emerging differently than assumed when a product was designed and priced with respect to mortality and morbidity claims, policyholders' behaviour and expenses.

The Company has implemented product design and pricing policy and underwriting and claims management policy to manage its insurance risks.

The Company also limits its exposure to loss within the insurance operations through participation in reinsurance arrangement. For insurance contracts issued in 2011, the Company retains a maximum of RM300,000 for mortality risk per life and RM300,000 for critical illness risk per life, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance and catastrophe treaties. The Company is neither dependent on a single reinsurer at this moment nor are the operations of the Company is substantially dependent upon any reinsurance contract.

The table below sets out the concentration of the actuarial liabilities as at the date of the statement of financial position, gross and net of reinsurance, by class of business.

	Gross		Net	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Whole life	647,339	485,654	647,339	485,654
Endowment	280,202	223,456	280,202	223,456
Term	38,774	23,515	38,774	23,515
Annuity	174,139	164,784	174,139	164,784
Others	1,056,020	1,025,546	1,056,020	1,025,546
	2,196,474	1,922,955	2,196,474	1,922,955

31 RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net actuarial liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate actuarial liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

	Change in assumptions %	Impact on gross actuarial liabilities RM'000	Impact on net actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
2011					
Mortality/morbidity	+10	14,299	14,299	-	-
Discount rate	-1	40,528	40,528	-	-
Expenses	+10	7,752	7,752	-	-
Lapse and surrender rates	+10	990	990	-	-
2010					
Mortality/morbidity	+10	13,496	13,496	-	-
Discount rate	-1	32,573	32,573	-	-
Expenses	+10	5,938	5,938	-	-
Lapse and surrender rates	+10	2,754	2,754	-	-

In the sensitivity analysis above, the impact from the changes in assumptions in the table above to the non-participating fund is retained within the insurance contract liabilities. There is no material impact to the participating fund within the range of changes in assumptions as the participating nature of the participating fund gives the Company the flexibility to adjust the policyholders' bonus or dividends.

The method used and significant assumptions made for deriving sensitivity information did not change from the previous financial year.

31 RISK MANAGEMENT (CONTINUED)

(e) Credit risk

Credit risk is the risk of loss due to inability or unwillingness of an issuer or borrower to service its debt obligations. The risk arising from lending and investment activities is monitored regularly with respect to single customer limit, exposure to sector type, credit rating and remaining term to maturity, according to the guidelines and limits approved by the Board and within the guidelines issued by BNM.

As at the date of the statement of financial position, the credit exposure of the Company is within the guidelines and limits approved by the Board. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

The Company has minimal exposure to credit risk on unrated Malaysian Government Securities, Government Investment Issues and unquoted corporate debt securities as these are either issued or guaranteed by the Federal Government of Malaysia. All the remaining unquoted corporate debt securities are issued by companies with minimum rating of BBB.

Policy loans are secured against the surrender value of policies and carry substantially no credit risk. Mortgage loans and staff loans are secured against the properties charged to the Company.

Credit risk in respect of customer balances incurred on non-payment of premiums will only persist during the grace period specified in the policy documents on the expiry of which either the premium is paid or the policy will be terminated.

Fixed and call deposits are placed with financial institutions approved by the Investment Committee of the Company and with international ratings of ‘A’ or better.

Reinsurance arrangements are maintained with reinsurers with international ratings of ‘A’ or better.

There has been no significant change in the credit risk objectives, policies and processes in the current financial year as compared to the previous financial year.

31 RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

The table below shows the Company's maximum exposure to credit risk for the components in the statement of financial position by classifying assets according to the Company's credit rating of counterparties except for the investment-linked funds' assets, as the Company does not have any direct exposure to credit risk in those assets as the credit risk is borne by the investment-linked policyholders.

The investment-linked funds are the assets of the investment-linked contracts backing the investment-linked policyholders' account in the insurance contract liabilities.

31 RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired		Not	Past due	Past due		
	Rating (BBB to AAA)	Not rated	subject to credit risk	but not impaired	and impaired	Investment-linked funds	Total
2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
AFS financial assets							
Equity securities	-	-	662,554	-	-	-	662,554
Real estate investment trusts			1,467				1,467
Unit trust funds	-	-	82,830	-	-	-	82,830
Malaysian Government Securities	-	632,887	-	-	-	-	632,887
Government Investment Issues	-	97,109	-	-	-	-	97,109
Corporate debt securities	469,617	303,794	-	-	-	-	773,411
Accrued interest	3,433	9,336	-	-	-	-	12,769
Financial assets at FVTPL							
- designated upon initial recognition							
Equity securities	-	-	-	-	-	203,037	203,037
Malaysian Government Securities	-	136,824	-	-	-	3,983	140,807
Government Investment Issues	-	18,338	-	-	-	-	18,338
Corporate debt securities	97,170	48,785	-	-	-	55,616	201,571
Mutual funds	-	-	-	-	-	90,105	90,105
Accrued interest	609	1,618	-	-	-	480	2,707
Loans and receivables					-		
Fixed and call deposits	139,735	-	-	-	-	20,938	160,673
Loan receivables		326,044		109	362	-	326,515
Other receivables	-	3,985	-	-	-	2,921	6,906
Reinsurance assets	2,547	474	-	-	-	-	3,021
Insurance receivables	-	27,117	-	-	1,070	-	28,187
Cash and bank balances	23,192	-	-	-	-	1,067	24,259
Allowance for impairment losses	-	-	-	-	(1,148)	-	(1,148)
	736,303	1,606,311	746,851	109	284	378,147	3,468,005

31 **RISK MANAGEMENT** (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired		Not	Past due	Past due		
	Rating (BBB to AAA)	Not rated	subject to credit risk	but not impaired	and impaired	Investment-linked funds	Total
2010	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
AFS financial assets							
Equity securities	-	-	620,249	-	-	-	620,249
Unit trust funds	-	-	81,765	-	-	-	81,765
Malaysian Government Securities	-	522,447	-	-	-	-	522,447
Government Investment Issues	-	84,777	-	-	-	-	84,777
Corporate debt securities	453,822	262,290	-	-	-	-	716,112
Accrued interest	3,548	8,283	-	-	-	-	11,831
Financial assets at FVTPL							
- designated upon initial recognition							
Equity securities	-	-	-	-	-	188,983	188,983
Malaysian Government Securities	-	113,336	-	-	-	2,979	116,315
Government Investment Issues	-	15,270	-	-	-	-	15,270
Corporate debt securities	100,499	50,756	-	-	-	45,457	196,712
Equity call options	-	-	-	-	-	5,723	5,723
Mutual funds	-	-	-	-	-	102,709	102,709
Negotiable instrument of deposits	-	-	-	-	-	45,373	45,373
Accrued interest	609	1,447	-	-	-	410	2,466
Loans and receivables					-		
Fixed and call deposits	154,922	-	-	-	-	12,471	167,393
Loan receivables	-	353,110	-	3,083	578	265	357,036
Other receivables	-	6,728	-	-	-	8,874	15,602
Reinsurance assets	1,943	425	-	-	-	-	2,368
Insurance receivables	-	24,502	-	-	1,129	-	25,631
Cash and bank balances	87,610	-	-	-	-	1,916	89,526
Allowance for impairment losses	-	-	-	-	(1,203)	-	(1,203)
	802,953	1,443,371	702,014	3,083	504	415,160	3,367,085

31 RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Age analysis of financial assets past-due but not impaired

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2011					
Loan receivables	-	42	60	7	109
2010					
Loan receivables	-	48	-	3,035	3,083

Impaired financial assets

For assets to be classified as "past due and impaired", contractual payments must be in arrears for more than three months based on objective evidence that an impairment loss has been incurred. The Company records impairment allowance for loan receivables and insurance receivables in a separate allowance for impairment loss account. A reconciliation of the allowance for impairment losses for loan receivables and insurance receivables is as follows:

	Loan receivables		Insurance receivables		Total	
	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 January	84	84	1,119	1,119	1,203	1,203
Reversal of allowance for impairment loss during the financial year	-	-	(55)	-	(55)	-
As at 31 December	84	84	1,064	1,119	1,148	1,203

31 RISK MANAGEMENT (CONTINUED)

(f) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk),market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Market risk is managed through the segmentation of product liabilities with similar characteristics and the establishment of investment policies and goals for each segment. The Company's investment policies and goals reflect the asset mix, asset quality, sector mix, currency mix, interest rate risk exposure and liquidity targets.

There has been no significant change in the market risk objectives, policies and processes in the current financial year as compared to the previous financial year.

(i) Currency risk

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

The Company manages the risk through matching the currency of the assets with the currency of the liabilities which these assets support. The Company does not have direct exposure to foreign currency risk except for certain foreign currency denominated investment linked-business, of which the foreign currency risk is borne by the policyholders.

(ii) Interest rate risk

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

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

31 RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(ii) Interest rate risk (continued)

	Impact on profit before tax		Impact on equity	
	2011	2010	2011	2010
Change in variable:	RM'000	RM'000	RM'000	RM'000
Interest rate				
+ 100 basis points	-	-	(11,540)	(8,280)
- 100 basis points	-	-	12,854	9,126

The above impact to the Company's equity arose from the Shareholders' fund investments in fixed income securities which are classified as available-for-sale financial assets. In the analysis above, the impact arising from changes in interest rate risk to fixed income securities of the Life fund is retained in the insurance contract liabilities.

(iii) Price risk

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

The Company has acknowledged the inherent risk of investing in equities. The Board has set internal limits for maximum equity exposure, industry type exposure and individual stock exposure, which are consistent with BNM's guidelines, and has also imposed daily trading limits. In addition, the Investment Committee at its monthly meeting discusses the economic and market outlook, reviews transactions and deliberates on further equity allocation. The participating nature of the participating fund gives the Company the flexibility to adjust the policyholders' bonus or dividends in the event of persistently high or low equity returns.

31 RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(iii) Price risk (continued)

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

	Impact on profit before tax		Impact on equity	
	2011	2010	2011	2010
Change in variable	RM'000	RM'000	RM'000	RM'000
Market price				
+15%	-	-	3,168	2,417
-15%	-	-	(3,168)	(2,417)

The above impact to the Company's equity arose from the Shareholders' fund investments in equity securities which are classified as available-for-sale financial assets. In the analysis above, the impact arising from changes in price risk to equity securities of the Life fund are retained in the insurance contract liabilities.

31 RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This risk is managed via a three-year planning process to ascertain operational cash flow requirements and maintaining a reasonable level of liquid assets to meet unexpected cash flow. In addition, the Company has large holdings of government bonds that can be liquidated at short notice to meet unexpected liquidity needs.

It is unusual for the Company transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amount and maturities in respect of insurance contract liabilities are thus based on management's estimate based on statistical techniques and past experiences.

There has been no significant change in the liquidity risk objectives, policies and processes in the current financial year as compared to the previous financial year.

The table below analyses the Company's financial assets and financial liabilities into their relevant maturity groupings based on the remaining undiscounted contractual obligations. All liabilities are presented on a contractual cash flow basis except for the insurance contract liabilities are presented with their expected cash flows.

The investment-linked funds are the assets of the investment-linked contracts backing the investment-linked policyholders' account in the insurance contract liabilities. Investment-linked fund liabilities are repayable or transferable upon notice by policyholders and are disclosed separately under the "investment-linked funds" column.

31 RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

2011	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Investment-linked funds RM'000	Total RM'000
Equity securities	865,591	-	-	-	-	662,554	203,037	865,591
Real estate investment trusts	1,467	-	-	-	-	1,467	-	1,467
Malaysian Government Securities	773,694	24,480	78,501	90,969	950,622	-	3,983	1,148,555
Government Investment Issues	115,447	3,902	13,462	39,504	84,667	-	-	141,535
Corporate debt securities	974,982	136,793	231,676	245,043	532,352	-	55,616	1,201,480
Unit trust funds	82,830	-	-	-	-	82,830	-	82,830
Mutual funds	90,105	-	-	-	-	-	90,105	90,105
Accrued interest								
- AFS financial assets	12,769	12,769	-	-	-	-	-	12,769
- FVTPL financial assets	2,707	2,227	-	-	-	-	480	2,707
Loan receivables	326,431	323,536	104	161	2,630	-	-	326,431
Fixed and call deposits	160,673	90,293	314	60,285	-	-	20,938	171,830
Other receivables	6,906	3,595	-	-	390	-	2,921	6,906
Reinsurance assets	3,021	3,021	-	-	-	-	-	3,021
Insurance receivables	27,123	27,123	-	-	-	-	-	27,123
Cash and bank balances	24,259	23,192	-	-	-	-	1,067	24,259
Total assets	3,468,005	650,931	324,057	435,962	1,570,661	746,851	378,147	4,106,609
Insurance contract liabilities	2,777,264	263,627	200,146	321,691	5,185,878	-	366,032	6,337,374
Insurance claims liabilities	35,372	35,372	-	-	-	-	-	35,372
Insurance payables	328,461	328,461	-	-	-	-	-	328,461
Other payables	34,610	26,366	-	-	-	-	8,244	34,610
Total liabilities	3,175,707	653,826	200,146	321,691	5,185,878	-	374,276	6,735,817

31 RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

2010	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Investment-linked funds RM'000	Total RM'000
Equity securities	809,232	-	-	-	-	620,249	188,983	809,232
Malaysian Government Securities	638,762	29,909	70,664	100,440	738,607	-	2,979	942,599
Government Investment Issues	100,047	3,429	8,258	30,486	83,792	-	-	125,965
Corporate debt securities	912,824	42,172	296,506	197,660	556,790	-	45,457	1,138,585
Unit trust funds	81,765	-	-	-	-	81,765	-	81,765
Mutual funds	102,709	-	-	-	-	-	102,709	102,709
Negotiable instrument of deposits	45,373	-	-	-	-	-	45,373	45,373
Equity call options	5,723	-	-	-	-	-	5,723	5,723
Accrued interest income								
- AFS financial assets	11,831	11,831	-	-	-	-	-	11,831
- FVTPL financial assets	2,466	2,056	-	-	-	-	410	2,466
Loan receivables	356,952	340,825	15,221	154	487	-	265	356,952
Fixed and call deposits	167,393	108,803	314	314	60,128	-	12,471	182,030
Other receivables	15,602	6,728	-	-	-	-	8,874	15,602
Reinsurance assets	2,368	2,368	-	-	-	-	-	2,368
Insurance receivables	24,512	24,512	-	-	-	-	-	24,512
Cash and bank balances	89,526	87,610	-	-	-	-	1,916	89,526
Total assets	3,367,085	660,243	390,963	329,054	1,439,804	702,014	415,160	3,937,238
Insurance contract liabilities	2,753,341	484,863	122,267	301,128	5,013,838	-	399,348	6,321,444
Insurance claims liabilities	28,885	28,885	-	-	-	-	-	28,885
Insurance payables	294,114	294,114	-	-	-	-	-	294,114
Other payables	46,731	38,135	-	-	-	-	8,596	46,731
Total liabilities	3,123,071	845,997	122,267	301,128	5,013,838	-	407,944	6,691,174

31 RISK MANAGEMENT (CONTINUED)

(h) Operational risk

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

32 INSURANCE FUNDS

The Company's activities are organised by funds and segregated into Life fund, Investment-linked funds and Shareholders' fund in accordance with the Insurance Act, 1996 and Insurance Regulations, 1996.

The Company's statement of financial position and statement of comprehensive income have been further analysed by funds as follows:

Statement of Financial Position by Funds

2011	Shareholders' fund	Insurance funds: Life fund	Insurance funds: Investment-linked funds	Elimination	Total
Assets	RM'000	RM'000	RM'000	RM'000	RM'000
Property and equipment	-	9,415	-	-	9,415
Investment properties	-	48,633	-	-	48,633
Intangible assets	-	61	-	-	61
Loans and receivables	79,803	453,182	23,859	(62,501)	494,343
Available-for-sale financial assets	261,353	2,001,674	-	-	2,263,027
Fair value through profit or loss financial assets	-	303,344	353,221	-	656,565
Reinsurance assets	-	3,021	-	-	3,021
Insurance receivables	-	27,123	-	-	27,123
Current tax assets	3,704	1,786	(1,455)	-	4,035
Cash and bank balances	1,179	22,013	1,067	-	24,259
Total assets	**346,039**	**2,870,252**	**376,692**	**(62,501)**	**3,530,482**
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	174,965	-	-	-	174,965
Other reserves	10,252	-	-	-	10,252
Total equity	**335,217**	**-**	**-**	**-**	**335,217**
Insurance contract liabilities	-	2,411,232	366,032	-	2,777,264
Insurance claims liabilities	-	35,372	-	-	35,372
Deferred tax liabilities	3,418	13,724	2,416	-	19,558
Insurance payables	-	328,461	-	-	328,461
Other payables	7,404	81,463	8,244	(62,501)	34,610
Total equity, policyholders' funds and liabilities	**346,039**	**2,870,252**	**376,692**	**(62,501)**	**3,530,482**

32 INSURANCE FUNDS (CONTINUED)

Statement of Financial Position by Funds (continued)

2010		Insurance funds			
	Shareholders' fund	Life fund	Investment-linked funds	Elimination	Total
Assets	RM'000	RM'000	RM'000	RM'000	RM'000
Property and equipment	-	4,583	-	-	4,583
Investment properties	-	51,215	-	-	51,215
Intangible assets	-	184	-	-	184
Loans and receivables	80,850	503,048	21,610	(65,121)	540,387
Available-for-sale financial assets	201,747	1,835,434	-	-	2,037,181
Fair value through profit or loss financial assets	-	281,917	391,634	-	673,551
Reinsurance assets	-	2,368	-	-	2,368
Insurance receivables	-	24,512	-	-	24,512
Cash and bank balances	913	86,697	1,916	-	89,526
Total assets	**283,510**	**2,789,958**	**415,160**	**(65,121)**	**3,423,507**
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	112,644	-	-	-	112,644
Other reserves	10,310	-	-	-	10,310
Total equity	**272,954**	**-**	**-**	**-**	**272,954**
Insurance contract liabilities	-	2,353,993	399,348	-	2,753,341
Insurance claims liabilities	-	28,885	-	-	28,885
Deferred tax liabilities	3,437	16,654	4,338	-	24,429
Insurance payables	-	294,114	-	-	294,114
Current tax liabilities	1,860	(1,685)	2,878	-	3,053
Other payables	5,259	97,997	8,596	(65,121)	46,731
Total equity, policyholders' funds and liabilities	**283,510**	**2,789,958**	**415,160**	**(65,121)**	**3,423,507**

32 INSURANCE FUNDS (CONTINUED)

Statement of Comprehensive Income by Funds

2011	Shareholders' Fund	Insurance funds: Life Fund	Insurance funds: Investment-linked Funds	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	10,284	516,697	105,571	(4,420)	628,132
Gross earned premiums	-	393,982	93,923	-	487,905
Premiums ceded to reinsurers	-	(10,582)	-	-	(10,582)
Net earned premiums	-	383,400	93,923	-	477,323
Fee and commission income	-	4,420	-	(4,420)	-
Investment income	10,284	118,295	11,648	-	140,227
Net realised gains	2,572	47,301	-	-	49,873
Other operating income	1	(119)	1,904	-	1,786
Other income	12,857	169,897	13,552	(4,420)	191,886
Gross benefits and claims paid	-	(296,702)	(126,154)	-	(422,856)
Claims ceded to reinsurers	-	3,857	-	-	3,857
Gross change to contract liabilities	-	(73,334)	35,951	-	(37,383)
Net claims	-	(366,179)	(90,203)	-	(456,382)
Fee and commission expense	-	(65,464)	-	-	(65,464)
Net fair value losses	(218)	522	(10,835)		(10,531)
Investment expenses	(567)	(6,914)	-	-	(7,481)
Management expenses	(323)	(41,737)	(6,521)	4,420	(44,161)
Other operating expenses	(40)	(9,526)	84	-	(9,482)
Other expenses	(1,148)	(123,119)	(17,272)	4,420	(137,119)
Profit from operations	11,709	63,999	-	-	75,708
Transfer from/(to) revenue account	63,999	(63,999)	-	-	-
Profit before taxation	75,708	-	-	-	75,708
Taxation	(13,387)	-	-	-	(13,387)
Net profit for the financial year	62,321	-	-	-	62,321

32 INSURANCE FUNDS (CONTINUED)

Statement of Comprehensive Income by Funds (continued)

2010	Shareholders' Fund	Insurance funds: Life Fund	Insurance funds: Investment-linked Funds	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	8,140	504,649	93,525	(4,034)	602,280
Gross earned premiums	-	383,117	83,899	-	467,016
Premiums ceded to reinsurers	-	(10,519)	-	-	(10,519)
Net earned premiums	-	372,598	83,899	-	456,497
Fee and commission income	-	4,034	-	(4,034)	-
Investment income	8,140	117,498	9,626	-	135,264
Net realised gains	1,894	26,210	-	-	28,104
Net fair value gains	-	10,901	51,495	-	62,396
Other operating income	-	75	879	160	1,114
Other income	10,034	158,718	62,000	(3,874)	226,878
Gross benefits and claims paid	-	(286,997)	(91,601)	-	(378,598)
Claims ceded to reinsurers	-	4,737	-	-	4,737
Gross change to contract liabilities	-	(57,289)	(42,391)	-	(99,680)
Net claims	-	(339,549)	(133,992)	-	(473,541)
Fee and commission expense	-	(73,908)	-	-	(73,908)
Investment expenses	(416)	(6,292)	-	-	(6,708)
Management expenses	(233)	(34,259)	(5,911)	3,874	(36,529)
Other operating expenses	(36)	(12,187)	(5,996)	-	(18,219)
Other expenses	(685)	(126,646)	(11,907)	3,874	(135,364)
Profit from operations	9,349	65,121	-	-	74,470
Transfer from/(to) revenue account	65,121	(65,121)	-	-	-
Profit before taxation	74,470	-	-	-	74,470
Taxation	(14,970)	-	-	-	(14,970)
Net profit for the financial year	59,500	-	-	-	59,500

For disclosure purposes, the investment component of the investment-linked contracts are shown separately.

32 INSURANCE FUNDS (CONTINUED)

Information on cash flows by Funds

2011	Shareholders' fund	Insurance funds: Life fund	Insurance funds: Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000
Cash flows from:				
Operating activities	266	(62,951)	(849)	(63,534)
Investing activities	-	(1,733)	-	(1,733)
Financing activities	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	266	(64,684)	(849)	(65,267)
At beginning of financial year	913	86,697	1,916	89,526
At end of financial year	1,179	22,013	1,067	24,259

2010	Shareholders' fund	Life fund	Investment-linked funds	Total
	RM'000	RM'000	RM'000	RM'000
Cash flows from:				
Operating activities	24	(22,363)	9,607	(12,732)
Investing activities	-	(932)	-	(932)
Financing activities	-	8,098	(8,098)	-
Net increase/(decrease) in cash and cash equivalents	24	(15,197)	1,509	(13,664)
At beginning of financial year	889	101,894	407	103,190
At end of financial year	913	86,697	1,916	89,526

33 COMPARATIVES FIGURES

Certain comparative figures have been reclassified to conform with the current financial year's presentation.

		As previously reported	Reclassification	As restated
		RM'000	RM'000	RM'000
Statement of comprehensive income				
Net realised gains	(i)	61,904	(33,800)	28,104
Net fair value gains	(i)	28,596	33,800	62,396
Gross change to contract liabilities	(ii)	(89,413)	(10,267)	(99,680)
Other operating expenses	(ii)	(28,486)	10,267	(18,219)
Statement of financial position				
Available-for-sale financial assets	(iii)	2,025,350	11,831	2,037,181
Fair value through profit or loss financial assets	(iii)	671,085	2,466	673,551
Loans and receivables	(iii) (iv)	621,505	(81,118)	540,387
Cash and cash equivalents	(iv)	22,705	66,821	89,526

(i) Fair value gains or losses arising from FVTPL financial assets have been reclassified from net realised gains to net fair value gains/(losses).

(ii) Currency translation reserve arising from the translation of investment-linked funds' assets and liabilities that have a foreign currency other than Ringgit Malaysia, was recorded in other operating expenses previously, is now reclassified to gross change in contract liabilities.

(iii) Accrued interest on AFS and FVTPL financial assets have been reclassified from other receivables to the respective financial assets' balances.

(iv) Placements with original maturity of less than three months, which are held for liquidity management purposes was recorded in loans and receivables previously, is now reclassified to cash and cash equivalents.

34 AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the directors on 20 March 2012.

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Tan Sri Dato' Mohd Sheriff Bin Mohd Kassim and Michael Chan Yui Lung, two of the directors of Manulife Insurance Berhad, state that, in the opinion of the directors, the financial statements set out on pages 8 to 79 are drawn up so as to give a true and fair view of the state of affairs of the Company at 31 December 2011, and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Financial Reporting Standards in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies, Act 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 20 March 2012.

TAN SRI DATO' MOHD SHERIFF BIN MOHD KASSIM
CHAIRMAN

CHAN YUI LUNG
DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Tham Kok Yoke, the officer primarily responsible for the financial management of Manulife Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 8 to 79 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

THAM KOK YOKE

Subscribed and solemnly declared by the abovenamed Tham Kok Yoke at Kuala Lumpur in Malaysia on 20 March 2012 before me.

COMMISSIONER FOR OATHS

COMMISSIONER FOR OATHS
W 378
K NERMALA
No. 50-10-1, Tingkat 10,
Wisma UOA Damansara
No. 50, Jalan Dungun
Bukit Damansara
50490 Kuala Lumpur
MALAYSIA

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
(Company No. 814942 M)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Manulife Insurance Berhad, which comprise the statement of financial position as at 31 December 2011 of the Company, the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 79.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with the Financial Reporting Standards in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act 1965, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act,1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MANULIFE INSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 814942 M)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 ("the Act") in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Pricewaterhouse Coopers

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SHIRLEY GOH
(No. 1778/08/12(J))
Chartered Accountant

Kuala Lumpur
20 March 2012