

Company No.

814942	M
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**MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017**

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## **MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

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## MANULIFE INSURANCE BERHAD

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### UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
<b>ASSETS</b>			
Property and equipment		17,954	17,916
Investment property		50,913	50,913
Intangible assets	12	25,833	28,502
Available-for-sale financial assets	13(a)	3,095,168	2,877,618
Financial assets at fair value through profit or loss	13(b)	1,430,300	1,335,713
Loans and receivables		275,203	301,422
Reinsurance assets	14	9,452	8,611
Insurance receivables		21,800	28,781
Cash and cash equivalents		63,429	91,081
<b>TOTAL ASSETS</b>		<b>4,990,052</b>	<b>4,740,557</b>
<b>EQUITY, POLICYHOLDERS' FUND AND LIABILITIES</b>			
Share capital		150,000	150,000
Retained earnings		359,137	346,913
Fair value reserves		12,794	2,920
<b>TOTAL EQUITY</b>		<b>521,931</b>	<b>499,833</b>
Insurance contract liabilities	15	3,814,729	3,591,347
Insurance claim liabilities		58,329	55,764
Deferred tax liabilities		39,122	25,907
Financial liabilities at fair value through profit or loss	16	1,715	549
Insurance payables		495,396	479,294
Current tax liabilities		8,188	5,128
Other payables		50,642	82,735
<b>TOTAL LIABILITIES</b>		<b>4,468,121</b>	<b>4,240,724</b>
<b>TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES</b>		<b>4,990,052</b>	<b>4,740,557</b>

The accompanying notes form an integrated part of these unaudited condensed interim financial statements.

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## MANULIFE INSURANCE BERHAD

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### UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

	<b>30.06.2017</b>	<b>Cumulative 6 months ended 30.06.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Premium income		
Gross premiums	404,737	441,378
Premiums ceded to reinsurers	(17,355)	(11,402)
Net premiums	<u>387,382</u>	<u>429,976</u>
Investment income	86,277	81,280
Net realised gains	14,133	7,207
Net fair value gains/(losses)	108,927	(8,243)
Fee income	2,308	1,654
Other operating income	1,332	584
<b>Total revenue</b>	<u>600,359</u>	<u>512,458</u>
Gross benefits and claims paid and payable	(319,439)	(266,094)
Claims ceded to reinsurers	5,432	3,996
Gross change in insurance contract liabilities	(145,308)	(120,764)
Change in insurance contract liabilities ceded to reinsurers	480	806
<b>Net claims</b>	<u>(458,835)</u>	<u>(382,056)</u>
Fee and commission expenses	(29,895)	(34,624)
Investment expenses	(4,866)	(4,419)
Management expenses	(51,815)	(55,154)
Other operating expenses	(37,524)	(28,275)
<b>Other expenses</b>	<u>(124,100)</u>	<u>(122,472)</u>
<b>Profit before taxation</b>	17,424	7,930
Taxation	(5,200)	(2,665)
<b>Net profit for the financial period</b>	<u>12,224</u>	<u>5,265</u>
<b>Net profit attributable to:</b>		
Equity holder of the Company	<u>12,224</u>	<u>5,265</u>
Basic and diluted earnings per share (sen)	<u>4.07</u>	<u>1.76</u>

The accompanying notes form an integrated part of these unaudited condensed interim financial statements.

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## MANULIFE INSURANCE BERHAD

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### UNAUDITED CONDENSED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

	<u>30.06.2017</u> RM'000	<u>Cumulative 6 months ended 30.06.2016</u> RM'000
<b>Net profit for the financial period</b>	12,224	5,265
<b>Other comprehensive income, net of tax:</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:-		
Fair value change on available-for-sale financial assets:		
- Gross fair value change	96,071	40,036
- Deferred tax	(8,123)	(3,883)
	87,948	36,153
Change in insurance contract liabilities arising from unrealised net fair value changes	(78,074)	(36,085)
Net income	9,874	68
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	9,874	68
<b>Other comprehensive income for the financial period</b>	9,874	68
<b>Total comprehensive income for the financial period</b>	22,098	5,333
<b>Total comprehensive income attributable to:</b>		
Equity holder of the Company	22,098	5,333

The accompanying notes form an integrated part of these unaudited condensed interim financial statements.

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## MANULIFE INSURANCE BERHAD

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### UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

	<u>Share capital</u> RM'000	Fair value <u>reserve</u> RM'000	Retained <u>earnings</u> RM'000	<u>Total</u> RM'000
<b>At 1 January 2017</b>	150,000	2,920	346,913	499,833
Net profit for the financial period	-	-	12,224	12,224
Other comprehensive income for the financial period	-	9,874	-	9,874
Total comprehensive income for the financial period	-	9,874	12,224	22,098
<b>At 30 June 2017</b>	<u>150,000</u>	<u>12,794</u>	<u>359,137</u>	<u>521,931</u>
<b>At 1 January 2016</b>	150,000	9,639	291,470	451,109
Net profit for the financial period	-	-	5,265	5,265
Other comprehensive income for the financial period	-	68	-	68
Total comprehensive income for the financial period	-	68	5,265	5,333
<b>At 30 June 2016</b>	<u>150,000</u>	<u>9,707</u>	<u>296,735</u>	<u>456,442</u>

Included in the retained earnings are surplus from Non-participating life fund (net of deferred tax) of approximately RM 83,315,000 (1 January 2017: RM 69,414,000 ; 30 June 2016: RM 77,530,000; 1 January 2016: RM 71,155,000). These amounts are only distributable upon the actual recommended transfer from Non-participating Life Fund to the Shareholders' fund by the Appointed Actuary.

The accompanying notes form an integrated part of these unaudited condensed interim financial statements.

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## MANULIFE INSURANCE BERHAD

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### UNAUDITED CONDENSED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2017

	6 months ended 30.06.2017	6 months ended 30.06.2016
	RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit for the financial period	12,224	5,265
Adjustments for non-cash items	(165,666)	(45,747)
Operating losses before changes in operating assets and liabilities	(153,442)	(40,482)
Purchase of investments	(1,200,458)	(1,304,366)
Proceeds from disposal and maturity of investments	1,089,538	1,068,919
Interest income received	56,832	55,403
Dividend income received	25,141	21,267
Rental income received	2,345	2,526
Decrease in insurance receivables	6,981	7,754
Increase in reinsurance assets	(841)	(2,151)
Decrease in loan receivables	4,177	15,182
Decrease/(increase) in other receivables	11,893	(10,579)
Decrease in fixed and call deposits	10,802	55,301
Increase in insurance contract liabilities	145,308	120,764
Increase in insurance claims liabilities	2,565	4,171
(Decrease)/increase in payables	(16,743)	34,791
Cash (used in)/generated from operations	(15,902)	28,500
Income taxes paid	(10,555)	(9,412)
Net cash (outflow)/inflow from operating activities	(26,457)	19,088
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(975)	(1,292)
Purchase of intangible assets	(220)	(687)
Net cash outflow from investing activities	(1,195)	(1,979)
Net (decrease)/increase during the financial period	(27,652)	17,109
Cash and cash equivalents at 1 January	91,081	64,578
Cash and cash equivalents at 30 June	63,429	81,687

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the unaudited condensed statement of cash flows comprise the following:

	As at 30.06.2017	As at 30.06.2016
	RM'000	RM'000
Cash and bank balances	55,088	62,496
Short-term deposits	8,341	19,191
Cash and cash equivalents	63,429	81,687

The accompanying notes form an integrated part of these unaudited condensed interim financial statements.

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

#### **1. BASIS OF PREPARATION**

The condensed interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standard (“MFRS”) 134: Interim Financial Reporting and International Accounting Standard (“IAS”) 34: Interim Financial Reporting and should be read in conjunction with the Company’s audited financial statements for the financial year ended 31 December 2016, which were prepared in accordance with the MFRS and IAS.

The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Company since the financial year ended 31 December 2016.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted by the Company in the unaudited condensed interim financial statements are consistent with those adopted in the Company’s audited financial statements for the financial year ended 31 December 2016, except for the adoption of the following MFRS:

<u>Description</u>	<u>Effective Date</u>
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Amendment to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2017

The adoption of the above amendments/improvements to standards issued by Malaysian Accounting Standards Board (“MASB”) in the current financial year does not have any material impact to the financial statements of the Company.

As at the date of authorisation of these interim financial statements, the Company is still assessing the financial impact and the additional disclosure requirements to the financial statements of the Company from the new MFRSs, amendments/improvements and IC Interpretation to MFRSs that are issued by MASB but not yet effective in the current year.

#### **3. SEASONAL/CYCLICAL FACTORS**

The business operations of the Company are subject to the sales cycle of the life insurance business.

#### **4. UNUSUAL ITEMS**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 30 June 2017.



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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)**

#### **5. CHANGE IN ESTIMATES**

There were no changes in the basis used for accounting estimates for the current financial period ended 30 June 2017.

#### **6. DEBT AND EQUITY SECURITIES**

There were no issuances, cancellation, repurchases, resale and repayment of debt and equity securities during the current financial period ended 30 June 2017.

#### **7. DIVIDENDS**

No dividends has been paid or declared by the Company since the end of the previous financial year.

#### **8. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD**

There is no material event subsequent to the end of the period under review that has not been reported in the interim financial statements for the current financial period to date.

#### **9. CHANGES IN COMPOSITION OF THE COMPANY**

There is no change in the Company's composition for the current financial period to date.

#### **10. CONTINGENT LIABILITIES**

There were no contingent liabilities as at the date of this report since the last annual statement of financial position date.

#### **11. SIGNIFICANT EVENTS**

There are no significant events during the financial period to date.

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 12. INTANGIBLE ASSET

	Exclusive right RM'000	Computer software RM'000	Computer software in progress RM'000	Total RM'000
<b>Cost</b>				
At 1 January 2016	40,000	2,205	-	42,205
Additions	-	920	2,464	3,384
Transfer from property and equipment	-	1,162	121	1,283
Transfer from holding company	-	144	-	144
At 31 December 2016/1 January 2017	<u>40,000</u>	<u>4,431</u>	<u>2,585</u>	<u>47,016</u>
Additions	-	-	219	219
Transfer to holding company	-	-	(31)	(31)
At 30 June 2017	<u>40,000</u>	<u>4,431</u>	<u>2,773</u>	<u>47,204</u>
<b>Accumulated amortisation</b>				
At 1 January 2016	10,200	1,285	-	11,485
Amortisation during the financial year	6,254	632	-	6,886
Transfer from holding company	-	143	-	143
At 31 December 2016/1 January 2017	<u>16,454</u>	<u>2,060</u>	<u>-</u>	<u>18,514</u>
Amortisation during the financial period	2,529	328	-	2,857
At 30 June 2017	<u>18,983</u>	<u>2,388</u>	<u>-</u>	<u>21,371</u>
<b>Net carrying amount</b>				
At 30 June 2017	<u>21,017</u>	<u>2,043</u>	<u>2,773</u>	<u>25,833</u>
At 31 December 2016	<u>23,546</u>	<u>2,371</u>	<u>2,585</u>	<u>28,502</u>

The Exclusive right is a definite life intangible asset and relates to a 10-year exclusive bancassurance agreement entered into between the Company and Alliance Bank Malaysia Berhad ("ABMB") on 13 June 2014. The exclusive right is amortised over the duration of the agreement with reference to the benefits generated from the partnership in which the Company expects to recognise the related revenue.

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 13. FINANCIAL ASSETS

##### (a) Available-for-sale

	<b>As at 30.06.2017</b>	<b>As at 31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Equity securities		
- Quoted in Malaysia	914,663	745,806
- Unquoted	1,944	1,944
Real estate investment trusts		
- Quoted in Malaysia	6,325	10,941
Unit trust funds*	169,885	166,312
Malaysian Government Securities	547,479	577,083
Government Investment Issues	172,953	196,571
Corporate debt securities		
- Unquoted	1,262,432	1,160,439
Accrued interest	19,487	18,522
	<b>3,095,168</b>	<b>2,877,618</b>
Current	1,203,477	1,004,464
Non-current	1,891,691	1,873,154
	<b>3,095,168</b>	<b>2,877,618</b>

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

	<b>As at 30.06.2017</b>	<b>As at 31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Equity securities		
- Quoted in Malaysia	497,069	394,515
- Quoted outside Malaysia	8,077	5,209
Real estate investment trusts		
- Quoted in Malaysia	5,642	7,623
Unit trust funds*	13,079	7,166
Malaysian Government Securities	40,180	77,589
Government Investment Issues	24,022	27,381
Corporate debt securities		
- Unquoted	218,882	206,038
Mutual funds		
- Quoted outside Malaysia	620,363	607,312
Accrued interest	2,986	2,880
	<b>1,430,300</b>	<b>1,335,713</b>

\* Being investment in unit trust funds managed by a related company.

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 13. FINANCIAL ASSETS (CONTINUED)

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

	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
Current	1,226,883	1,112,806
Non-current	203,417	222,907
	<u>1,430,300</u>	<u>1,335,713</u>

During the six months period ended 30 June 2017, there were no changes in classification of financial assets nor transfer between fair value hierarchy of financial assets as a result of a change in the purpose or the use of these financial assets.

#### 14. REINSURANCE ASSETS

	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
Reinsurance assets on:		
- Insurance contract liabilities	4,965	4,485
- Insurance claims liabilities	4,487	4,126
	<u>9,452</u>	<u>8,611</u>

#### 15. INSURANCE CONTRACT LIABILITIES

	Gross		Net	
	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
Actuarial liabilities	2,342,517	2,282,558	2,337,552	2,278,073
Unallocated surplus	56,320	63,402	56,320	63,402
Fair value reserve	124,850	46,776	124,850	46,776
Asset revaluation reserve	1,116	1,116	1,116	1,116
Investment-linked policyholders' account	1,289,926	1,197,495	1,289,926	1,197,495
	<u>3,814,729</u>	<u>3,591,347</u>	<u>3,809,764</u>	<u>3,586,862</u>
Current	1,379,638	1,325,727	1,379,613	1,325,596
Non-current	2,435,091	2,265,620	2,430,151	2,261,266
	<u>3,814,729</u>	<u>3,591,347</u>	<u>3,809,764</u>	<u>3,586,862</u>

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 15. INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

	Gross		Net	
	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
At 1 January	3,591,347	3,405,306	3,586,862	3,402,548
Inforce reserve movement	28,494	28,541	28,064	27,338
New business reserve	6,715	26,426	6,665	25,902
Discount rate and other changes	24,750	64,192	24,750	64,192
Unallocated surplus	(7,082)	(99,292)	(7,082)	(99,292)
Fair value reserve, net of tax	78,074	(6,305)	78,074	(6,305)
Asset revaluation reserve				
- Revaluation adjustment	-	(50)	-	(50)
- Reversal of accumulated depreciation on revaluation	-	324	-	324
	-	274	-	274
Investment-linked policyholders' account	92,431	172,205	92,431	172,205
At 30 June/31 December	<u>3,814,729</u>	<u>3,591,347</u>	<u>3,809,764</u>	<u>3,586,862</u>

As the Non-participating life fund's unallocated surplus and fair value reserve are classified as equity, only the associated Participating life fund's unallocated surplus and fair value reserve are included in the above presentation.

For the current period ended 30 June 2017, the applicable assumption changes resulted in higher actuarial liabilities of RM24.8 million (30 June 2016: higher actuarial liabilities of RM69.0 million), with a corresponding decrease in unallocated surplus for the participating business of RM14.9 million (30 June 2016: decrease in unallocated surplus of RM52.9 million) and decrease in net profit before tax of RM9.9 million (30 June 2016: decrease in net profit before tax of RM16.1 million).

#### 16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

##### Derivatives

The table below shows the fair value of derivative financial instruments, recorded as asset or liability, together with their notional amounts. The notional amount, recorded gross, is the amount of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured.

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Derivatives (continued)

	<u>Fair value losses recognised as</u>			<b>Net carrying amount RM'000</b>
	<b>Notional amount RM'000</b>	<b>Financial Asset RM'000</b>	<b>Financial Liability RM'000</b>	
<b>30 June 2017</b>				
<b>Hedging derivative:</b>				
Forward foreign exchange contract	436,127	-	(1,715)	(1,715)
<b>31 December 2016</b>				
<b>Hedging derivative:</b>				
Forward foreign exchange contract	386,222	-	(549)	(549)

#### 17. 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 period between the Company and its related parties are set out as below:

	<b>Cumulative 6 months ended</b>	
	<u>30.06.2017</u>	<u>30.06.2016</u>
<b>Expenses/(income):</b>		
<b>Intermediate holding company</b>		
Reimbursement of personnel expenses	3,687	2,569
Reimbursement of software maintenance expenses	1,065	2,558
Waiver of prior years software maintenance expenses	(3,047)	-
<b>Subsidiaries of ultimate holding company</b>		
Outsourced information technology service expenses	128	913
Software development expenses	29	1,606
<b>Subsidiaries of immediate holding company</b>		
Outsourcing fee income	(1,743)	(1,150)
Fund management fee expenses	4,892	4,479
<b>Immediate holding company</b>		
Outsourcing fee income	(565)	(504)
Outsourcing fees	145	233
Rental income	(57)	(53)
Rental expenses	594	409

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 18. FINANCIAL INSTRUMENTS

##### 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”).

	<u>AFS</u> RM'000	<u>FVTPL</u> RM'000	<u>LAR</u> RM'000	<u>OL</u> RM'000	<u>Total</u> RM'000
<b>30 June 2017</b>					
<b>Financial assets</b>					
AFS financial assets	3,095,168	-	-	-	3,095,168
Financial assets at FVTPL	-	1,430,300	-	-	1,430,300
Loans and receivables	-	-	273,453	-	273,453
Insurance receivables	-	-	21,800	-	21,800
Cash and cash equivalents	-	-	63,429	-	63,429
	<u>3,095,168</u>	<u>1,430,300</u>	<u>358,682</u>	<u>-</u>	<u>4,884,150</u>
<b>Financial liabilities</b>					
Financial liabilities at FVTPL	-	1,715	-	-	1,715
Insurance payables	-	-	-	495,396	495,396
Other payables	-	-	-	50,642	50,642
	<u>-</u>	<u>1,715</u>	<u>-</u>	<u>546,038</u>	<u>547,753</u>
<b>31 December 2016</b>					
<b>Financial assets</b>					
AFS financial assets	2,877,618	-	-	-	2,877,618
Financial assets at FVTPL	-	1,335,713	-	-	1,335,713
Loans and receivables	-	-	300,375	-	300,375
Insurance receivables	-	-	28,781	-	28,781
Cash and cash equivalents	-	-	91,081	-	91,081
	<u>2,877,618</u>	<u>1,335,713</u>	<u>420,237</u>	<u>-</u>	<u>4,633,568</u>
<b>Financial liabilities</b>					
Financial liabilities at FVTPL	-	549	-	-	549
Insurance payables	-	-	-	479,294	479,294
Other payables	-	-	-	82,735	82,735
	<u>-</u>	<u>549</u>	<u>-</u>	<u>562,029</u>	<u>562,578</u>

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 19. DETERMINATION OF FAIR VALUES AND FAIR VALUE HIERARCHY

##### a) Freehold property and investment property

The fair value of the Company's freehold property and investment property is determined based on the income method conducted by an independent qualified valuer.

Under the income method, the market value of the properties is determined based on the net annual income which is derived by deducting the annual outgoings from the gross annual income and capitalising the net income by a suitable rate of return consistent with the type and quality of the investment.

##### Fair value hierarchy

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 is derived from unadjusted quoted price in active markets for identical properties that the entity can access at the measurement date.

Level 2 – Fair value is estimated using inputs that are observable for the properties, either directly or indirectly.

Level 3 – Fair value is estimated using unobservable inputs for the properties.

The fair value of freehold property and investment property is classified within Level 3 of the fair value hierarchy. The fair value of the properties is as follows:

	<u>Freehold property</u>		<u>Investment property</u>	
	<u>As at 30.06.2017</u>	<u>As at 31.12.2016</u>	<u>As at 30.06.2017</u>	<u>As at 31.12.2016</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Carrying amount	10,154	10,321	50,913	50,913
Fair value as stated in valuation report*	10,321	10,321	50,913	50,913

\* Based on the valuation conducted by an independent qualified valuer as at 4 November 2016.

Description of valuation techniques used and significant unobservable inputs to valuation of freehold properties and investment properties:

	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range</u>
<b>2016</b>			
Freehold/ investment property	Income method	Term's period net yield Reversionary period's net yield Void factor Average rental for term period Average rental for reversionary period	6.00% 6.25% 5.00% RM4.40 – RM5.03 psf RM4.60 psf



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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS  
(CONTINUED)****19. DETERMINATION OF FAIR VALUES AND FAIR VALUE HIERARCHY (CONTINUED)****a) Freehold property and investment property (continued)**

Significant increase or decrease in each of the unobservable inputs used in the valuation would result in a correspondingly higher or lower fair value of the properties.

The reconciliation from beginning to ending balances for the freehold property and investment property are as follows:

	<b>Freehold property</b>		<b>Investment property</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	10,321	10,330	50,913	51,320
Depreciation charge for the period/year	(167)	(324)	-	-
Additions during the period/year	-	41	-	164
Fair value gain/(loss)	-	274	-	(571)
At 30 June/31 December	<u>10,154</u>	<u>10,321</u>	<u>50,913</u>	<u>50,913</u>

**b) Financial assets and financial liabilities****(i) 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 cash equivalents, insurance payables and other payables are reasonable approximations of their fair values due to the relatively short term maturity of these balances and the immaterial impact of discounting;
- (ii) The fair values of quoted equities and investments in real estate investment trusts 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 instruments of deposit 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 mutual funds and unit trust funds are based on the net asset values of the underlying funds as at the reporting date; and
- (vi) The fair values of forward foreign exchange contracts are based on valuations provided by the financial institutions making reference to quoted market prices.

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)**

#### **19. DETERMINATION OF FAIR VALUES AND FAIR VALUE HIERARCHY (CONTINUED)**

##### **b) Financial assets and financial liabilities (continued)**

###### **(ii) Fair value hierarchy (continued)**

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.

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.

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 19. DETERMINATION OF FAIR VALUES AND FAIR VALUE HIERARCHY (CONTINUED)

##### b) Financial assets and financial liabilities (continued)

##### (ii) Fair value hierarchy (continued)

The following table presents the Company's financial assets and liabilities that are carried at fair value as at reporting date.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
<b>30 June 2017</b>			
<b>AFS financial assets</b>			
Equity securities			
- Quoted in Malaysia	914,663	914,663	-
Real estate investment trusts			
- Quoted in Malaysia	6,325	6,325	-
Unit trust funds	169,885	169,885	-
Malaysian Government Securities	547,479	-	547,479
Government Investment Issues	172,953	-	172,953
Corporate debt securities			
- Unquoted	1,262,432	-	1,262,432
Accrued interest	19,487	-	19,487
	<u>3,093,224</u>	<u>1,090,873</u>	<u>2,002,351</u>
<b>Financial assets at FVTPL</b>			
Equity securities			
- Quoted in Malaysia	497,069	497,069	-
- Quoted outside Malaysia	8,077	8,077	-
Real estate investment trusts			
- Quoted in Malaysia	5,642	5,642	-
Unit trust funds	13,079	13,079	-
Malaysian Government Securities	40,180	-	40,180
Government Investment Issues	24,022	-	24,022
Corporate debt securities			
- Unquoted	218,882	-	218,882
Mutual funds			
- Quoted outside Malaysia	620,363	620,363	-
Accrued interest	2,986	-	2,986
	<u>1,430,300</u>	<u>1,144,230</u>	<u>286,070</u>
	<u>4,523,524</u>	<u>2,235,103</u>	<u>2,288,421</u>
<b>Financial liabilities at FVTPL</b>			
Forward foreign exchange contract	1,715	-	1,715

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 19. DETERMINATION OF FAIR VALUES AND FAIR VALUE HIERARCHY (CONTINUED)

##### b) Financial assets and financial liabilities (continued)

##### (ii) Fair value hierarchy (continued)

The following table presents the Company's financial assets and liabilities that are carried at fair value as at reporting date. (continued)

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
<b>31 December 2016</b>			
<b>AFS financial assets</b>			
Equity securities			
- Quoted in Malaysia	745,806	745,806	-
Real estate investment trusts			
- Quoted in Malaysia	10,941	10,941	-
Unit trust funds	166,312	166,312	-
Malaysian Government Securities	577,083	-	577,083
Government Investment Issues	196,571	-	196,571
Corporate debt securities			
- Unquoted	1,160,439	-	1,160,439
Accrued interest	18,522	-	18,522
	<u>2,875,674</u>	<u>923,059</u>	<u>1,952,615</u>
<b>Financial assets at FVTPL</b>			
Equity securities			
- Quoted in Malaysia	394,515	394,515	-
- Quoted outside Malaysia	5,209	5,209	-
Real estate investment trusts			
- Quoted in Malaysia	7,623	7,623	-
Unit trust funds	7,166	7,166	-
Malaysian Government Securities	77,589	-	77,589
Government Investment Issues	27,381	-	27,381
Corporate debt securities			
- Unquoted	206,038	-	206,038
Mutual funds			
- Quoted outside Malaysia	607,312	607,312	-
Accrued interest	2,880	-	2,880
	<u>1,335,713</u>	<u>1,021,825</u>	<u>313,888</u>
	<u>4,211,387</u>	<u>1,944,884</u>	<u>2,266,503</u>
<b>Financial liabilities at FVTPL</b>			
Forward foreign exchange contract	549	-	549

Unquoted equity securities of RM1,944,444 (31 December 2016: RM1,944,444) of the Company as disclosed in note 13(a) are not disclosed in the fair value hierarchy above as they are measured at cost as fair value is not readily available.

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

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 20. TOTAL CAPITAL ASSETS

The capital structure of the Company as prescribed under the Risk-Based Capital Framework is as below:

	<u>As at 30.06.2017</u> RM'000	<u>As at 31.12.2016</u> RM'000
<b>Eligible Tier 1 Capital</b>		
Share capital (paid-up)	150,000	150,000
Retained earnings of the Company*	275,346	277,499
Eligible contract liabilities	671,997	688,334
	<u>1,097,343</u>	<u>1,115,833</u>
<b>Eligible Tier 2 Capital</b>		
Eligible reserves	138,761	50,813
Amounts deducted from capital	(24,466)	(29,088)
<b>Total Capital Available</b>	<u>1,211,638</u>	<u>1,137,558</u>

\* Only distributable retained earnings of the Company are included in the determination of Total Capital Available.

#### 21. CAPITAL AND OTHER COMMITMENTS

	<u>As at 30.06.2017</u> RM'000	<u>As at 31.12.2016</u> RM'000
<b>Other commitments</b>		
<b>Exclusive bancassurance agreement</b>		
- Authorised but not provided for	<u>18,000</u>	<u>19,500</u>

The Company is committed to pay annual fees of RM3,000,000 under the terms of the exclusive bancassurance agreement over a period of 10 years. The annual fees will be expensed off to the profit or loss in the year of settlement.

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 22. 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 Financial Services Act 2013.

The Company's unaudited condensed statement of financial position and statement of profit or loss have been further analysed by funds as follows:

#### Interim Statement of Financial Position by Funds as at 30 June 2017

	Shareholders' Fund	Insurance Funds		Elimination	Total
		Life Fund	Investment -linked funds		
Assets	RM'000	RM'000	RM'000	RM'000	RM'000
Property and equipment	-	17,954	-	-	17,954
Investment property	-	50,913	-	-	50,913
Intangible assets	21,017	4,816	-	-	25,833
Available-for-sale financial assets	415,566	2,679,602	-	-	3,095,168
Financial assets at fair value through profit or loss	-	213,569	1,216,731	-	1,430,300
Loans and receivables	106,387	177,691	93,460	(102,335)	275,203
Reinsurance assets	-	9,452	-	-	9,452
Insurance receivables	-	21,800	-	-	21,800
Cash and cash equivalents	10,974	49,996	2,459	-	63,429
<b>Total assets</b>	<b>553,944</b>	<b>3,225,793</b>	<b>1,312,650</b>	<b>(102,335)</b>	<b>4,990,052</b>
<b>Equity, Policyholders' Funds and Liabilities</b>					
Share capital	150,000	-	-	-	150,000
Retained earnings	359,137	-	-	-	359,137
Fair value reserves	12,794	-	-	-	12,794
<b>Total equity</b>	<b>521,931</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>521,931</b>
Insurance contract liabilities	-	2,524,803	1,289,926	-	3,814,729
Insurance claim liabilities	-	58,329	-	-	58,329
Financial liabilities at fair value through profit or loss	-	-	1,715	-	1,715
Deferred tax liabilities	22,831	7,717	8,574	-	39,122
Insurance payables	-	495,396	-	-	495,396
Current tax liabilities	2,703	(2,649)	8,134	-	8,188
Other payables	6,479	142,197	4,301	(102,335)	50,642
<b>Total liabilities</b>	<b>32,013</b>	<b>3,225,793</b>	<b>1,312,650</b>	<b>(102,335)</b>	<b>4,468,121</b>
<b>Total equity, policyholders' funds and liabilities</b>	<b>553,944</b>	<b>3,225,793</b>	<b>1,312,650</b>	<b>(102,335)</b>	<b>4,990,052</b>

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 22. INSURANCE FUNDS (CONTINUED)

##### Interim Statement of Financial Position by Funds as at 31 December 2016

	Shareholders' fund	Insurance funds		Elimination	Total
		Life fund	Investment- linked funds		
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>					
Property and equipment	-	17,916	-	-	17,916
Investment properties	-	50,913	-	-	50,913
Intangible assets	23,546	4,956	-	-	28,502
Available-for-sale financial assets	335,788	2,541,830	-	-	2,877,618
Financial assets at fair value through profit or loss	-	233,305	1,102,408	-	1,335,713
Loans and receivables	159,686	188,908	108,604	(155,776)	301,422
Reinsurance assets	-	8,611	-	-	8,611
Insurance receivables	-	28,781	-	-	28,781
Cash and cash equivalents	9,021	77,389	4,671	-	91,081
<b>Total assets</b>	<b>528,041</b>	<b>3,152,609</b>	<b>1,215,683</b>	<b>(155,776)</b>	<b>4,740,557</b>
<b>Equity, Policyholders' Funds and Liabilities</b>					
Share capital	150,000	-	-	-	150,000
Retained earnings	346,913	-	-	-	346,913
Fair value reserves	2,920	-	-	-	2,920
<b>Total equity</b>	<b>499,833</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>499,833</b>
Insurance contract liabilities	-	2,393,852	1,197,495	-	3,591,347
Insurance claims liabilities	-	55,764	-	-	55,764
Financial liabilities at fair value through profit or loss	-	-	549	-	549
Deferred tax liabilities	21,465	786	3,656	-	25,907
Insurance payables	-	479,294	-	-	479,294
Current tax liabilities	3,297	(2,468)	4,299	-	5,128
Other payables	3,446	225,381	9,684	(155,776)	82,735
<b>Total equity, policyholders' funds and liabilities</b>	<b>528,041</b>	<b>3,152,609</b>	<b>1,215,683</b>	<b>(155,776)</b>	<b>4,740,557</b>

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 22. INSURANCE FUNDS (CONTINUED)

##### Statement of Profit or Loss by Funds for the six months period ended 30 June 2017

	<b>Insurance funds</b>				<b>Total</b>
	<b>Shareholder's fund</b>	<b>Investment- linked funds</b>		<b>Elimination</b>	
	<b>RM'000</b>	<b>Life fund RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Premium income					
Gross premiums	-	258,169	146,568	-	404,737
Premiums ceded to reinsurers	-	(17,355)	-	-	(17,355)
Net premiums	-	240,814	146,568	-	387,382
Investment income	8,058	64,234	13,985	-	86,277
Net realised gains	158	13,975	-	-	14,133
Net fair value (losses)/gains	(189)	(3,060)	112,176	-	108,927
Fee income	-	8,845	-	(6,537)	2,308
Other operating income	-	70	1,262	-	1,332
<b>Total revenue</b>	<b>8,027</b>	<b>324,878</b>	<b>273,991</b>	<b>(6,537)</b>	<b>600,359</b>
Gross benefits and claims paid and payable	-	(175,334)	(144,105)	-	(319,439)
Claims ceded to reinsurers	-	5,432	-	-	5,432
Gross change in insurance contract liabilities	-	(52,876)	(92,432)	-	(145,308)
Change in insurance contract liabilities ceded to reinsurers	-	480	-	-	480
<b>Net claims</b>	<b>-</b>	<b>(222,298)</b>	<b>(236,537)</b>	<b>-</b>	<b>(458,835)</b>
Fee and commission expenses	-	(29,895)	-	-	(29,895)
Investment expenses	(428)	(4,438)	-	-	(4,866)
Management expenses	(5,744)	(44,291)	(8,317)	6,537	(51,815)
Other operating expenses	(2,723)	(5,664)	(29,137)	-	(37,524)
<b>Other expenses</b>	<b>(8,895)</b>	<b>(84,288)</b>	<b>(37,454)</b>	<b>6,537</b>	<b>(124,100)</b>
(Loss)/profit from operations	(868)	18,292	-	-	17,424
Transfer from/(to) revenue account	18,292	(18,292)	-	-	-
<b>Profit before taxation</b>	<b>17,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,424</b>
Taxation	(5,200)	-	-	-	(5,200)
<b>Net profit for the   financial period</b>	<b>12,224</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,224</b>



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**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS  
(CONTINUED)****22. INSURANCE FUNDS (CONTINUED)****Statement of Profit or Loss by Funds for the six months period ended 30 June 2016**

	<b>Insurance funds</b>				<b>Total</b>
	<b>Shareholders' fund</b>	<b>Investment-linked funds</b>		<b>Elimination</b>	
	<b>RM'000</b>	<b>Life fund</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Premium income					
Gross premiums	-	241,170	200,208	-	441,378
Premiums ceded to reinsurers	-	(11,402)	-	-	(11,402)
Net premiums	-	229,768	200,208	-	429,976
Investment income	5,892	62,270	13,118	-	81,280
Net realised gains	1,156	7,101	-	(1,050)	7,207
Net fair value losses	(273)	(7,731)	(239)	-	(8,243)
Fee income	-	7,194	-	(5,540)	1,654
Other operating income	-	7	577	-	584
<b>Total revenue</b>	<b>6,775</b>	<b>298,609</b>	<b>213,664</b>	<b>(6,590)</b>	<b>512,458</b>
Gross benefits and claims paid and payable	-	(179,862)	(89,782)	3,550	(266,094)
Claims ceded to reinsurers	-	3,996	-	-	3,996
Gross change in contract liabilities	-	(26,198)	(92,066)	(2,500)	(120,764)
Change in insurance contract liabilities ceded to reinsurers	-	806	-	-	806
<b>Net claims</b>	<b>-</b>	<b>(201,258)</b>	<b>(181,848)</b>	<b>1,050</b>	<b>(382,056)</b>
Fee and commission expenses	-	(34,624)	-	-	(34,624)
Investment expenses	(310)	(4,109)	-	-	(4,419)
Management expenses	(6,771)	(46,618)	(7,305)	5,540	(55,154)
Other expenses	(158)	(3,606)	(24,511)	-	(28,275)
<b>Other expenses</b>	<b>(7,239)</b>	<b>(88,957)</b>	<b>(31,816)</b>	<b>5,540</b>	<b>(122,472)</b>
(Loss)/profit from operations	(464)	8,394	-	-	7,930
Transfer from/(to) revenue account	8,394	(8,394)	-	-	-
<b>Profit before taxation</b>	<b>7,930</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,930</b>
Taxation	(2,665)	-	-	-	(2,665)
<b>Net profit for the financial period</b>	<b>5,265</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,265</b>

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### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

#### 22. INSURANCE FUNDS (CONTINUED)

##### Information on cash flows by Funds

	Shareholders' fund	Insurance funds		Total
		Life fund	Investment- linked funds	
	RM'000	RM'000	RM'000	RM'000
<b>30 June 2017</b>				
<b>Cash flows from:</b>				
Operating activities	1,954	(26,198)	(2,213)	(26,457)
Investing activities	-	(1,195)	-	(1,195)
Net increase/(decrease) in cash and cash equivalents	1,954	(27,393)	(2,213)	(27,652)
At beginning of financial year	9,020	77,390	4,671	91,081
At end of financial period	10,974	49,997	2,458	63,429
<b>30 June 2016</b>				
<b>Cash flows from:</b>				
Operating activities	(3,184)	25,659	(3,387)	19,088
Investing activities	-	(1,979)	-	(1,979)
Net (decrease)/increase in cash and cash equivalents	(3,184)	23,680	(3,387)	17,109
At beginning of financial year	9,135	50,571	4,872	64,578
At end of financial period	5,951	74,251	1,485	81,687