

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 2018

Company No.

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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 2018

	Note	As at 30.06.2018 RM'000	As at 31.12.2017 RM'000
ASSETS			
Property and equipment		16,788	17,544
Investment property		51,486	51,486
Intangible assets	12	21,035	23,161
Loans and receivables		333,293	308,491
Available-for-sale financial assets	13(a)	3,085,293	3,154,566
Financial asset at fair value through profit or loss	13(b)	1,423,127	1,534,670
Reinsurance assets	14	7,372	6,412
Insurance receivables		16,625	23,971
Cash and cash equivalents		69,878	85,828
TOTAL ASSETS		5,024,897	5,206,129
EQUITY, POLICYHOLDERS' FUND AND LIABILITIES			
Share capital		150,000	150,000
Retained earnings		299,277	386,340
Fair value reserves		4,702	10,850
TOTAL EQUITY		453,979	547,190
Insurance contract liabilities	15	3,849,166	3,948,040
Insurance claim liabilities		64,087	56,489
Financial liabilities at fair value through profit or loss	16	3,760	-
Deferred tax liabilities		18,288	36,426
Insurance payables		536,418	526,936
Current tax liabilities		6,480	2,409
Other payables		92,719	88,639
TOTAL LIABILITIES		4,570,918	4,658,939
TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES		5,024,897	5,206,129

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 2018

	<u>30.06.2018</u>	<u>Cumulative 6 months ended 30.06.2017</u>
	RM'000	RM'000
Premium income		
Gross premiums	438,474	404,737
Premiums ceded to reinsurers	(22,156)	(17,355)
Net premiums	<u>416,318</u>	<u>387,382</u>
Investment income	89,215	86,277
Net realised gains	32,357	14,133
Net fair value (losses)/gains	(111,157)	108,927
Fee income	2,424	2,308
Other operating income	1,104	1,332
Total revenue	<u>430,261</u>	<u>600,359</u>
Gross benefits and claims paid and payable	(335,655)	(319,439)
Claims ceded to reinsurers	6,120	5,432
Gross change in insurance contract liabilities	15,082	(145,308)
Change in insurance contract liabilities ceded to reinsurers	426	480
Net claims	<u>(314,027)</u>	<u>(458,835)</u>
Fee and commission expenses	(30,347)	(29,895)
Investment expenses	(4,837)	(4,866)
Management expenses	(57,417)	(51,815)
Other operating expenses	(5,170)	(37,524)
Other expenses	<u>(97,771)</u>	<u>(124,100)</u>
Profit before taxation	18,463	17,424
Taxation	(5,526)	(5,200)
Net profit for the financial period	<u>12,937</u>	<u>12,224</u>
Net profit attributable to:		
Equity holder of the Company	<u>12,937</u>	<u>12,224</u>
Basic and diluted earnings per share (sen)	<u>4.31</u>	<u>4.07</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 2018

	<u>30.06.2018</u> RM'000	<u>Cumulative 6 months ended 30.06.2017</u> RM'000
Net profit for the financial period	12,937	12,224
Other comprehensive (loss)/income, net of tax:		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:-		
Fair value change on available-for-sale financial assets:		
- Gross fair value change	(98,140)	96,071
- Deferred tax	8,200	(8,123)
	(89,940)	87,948
Change in insurance contract liabilities arising from unrealised net fair value changes	83,792	(78,074)
Net (loss)/income	(6,148)	9,874
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(6,148)	9,874
Other comprehensive (loss)/income for the financial period	(6,148)	9,874
Total comprehensive income for the financial period	6,789	22,098
Total comprehensive income attributable to:		
Equity holder of the Company	6,789	22,098

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

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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

	<u>Share capital</u> RM'000	<u>Fair value reserve</u> RM'000	<u>Retained earnings</u> RM'000	<u>Total</u> RM'000
At 1 January 2018	150,000	10,850	386,340	547,190
Net profit for the financial period	-	-	12,937	12,937
Other comprehensive loss for the financial period	-	(6,148)	-	(6,148)
Total comprehensive (loss)/income for the financial period	-	(6,148)	12,937	6,789
Final dividend for the financial year ended 31 December 2017	-	-	(100,000)	(100,000)
At 30 June 2018	<u>150,000</u>	<u>4,702</u>	<u>299,277</u>	<u>453,979</u>
At 1 January 2017	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
At 30 June 2017	<u>150,000</u>	<u>12,794</u>	<u>359,137</u>	<u>521,931</u>

Included in the retained earnings are surplus from Non-participating life fund (net of deferred tax) of approximately RM 83,429,000 (1 January 2018: RM 68,988,000; 30 June 2017: RM 83,315,000; 1 January 2017: RM 69,414,000). 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 2018

	6 months ended 30.06.2018	6 months ended 30.06.2017
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial period	12,937	12,224
Adjustments for non-cash items	1,540	(165,666)
Operating income/(losses) before changes in operating assets and liabilities	14,477	(153,442)
Purchase of investments	(1,359,702)	(1,200,458)
Proceeds from disposal and maturity of investments	1,360,630	1,089,538
Interest income received	63,272	56,832
Dividend income received	23,088	25,141
Rental income received	1,620	2,345
Decrease in insurance receivables	7,348	6,981
Increase in reinsurance assets	(960)	(841)
Decrease in loan receivables	6,640	4,177
Decrease in other receivables	1,928	11,893
(Increase)/decrease in fixed and call deposits	(29,782)	10,802
(Decrease)/increase in insurance contract liabilities	(15,082)	145,308
Increase in insurance claims liabilities	7,598	2,565
Increase/(decrease) in payables	13,139	(16,743)
Cash generated from/(used in) operations	94,214	(15,902)
Income taxes paid	(9,770)	(10,555)
Net cash inflow/(outflow) from operating activities	84,444	(26,457)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(221)	(975)
Purchase of intangible assets	(173)	(220)
Net cash outflow from investing activities	(394)	(1,195)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to shareholder	(100,000)	-
Net cash outflow from financing activities	(100,000)	-
Net decrease during the financial period	(15,950)	(27,652)
Cash and cash equivalents at 1 January	85,828	91,081
Cash and cash equivalents at 30 June	69,878	63,429

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 2018 (CONTINUED)

CASH AND CASH EQUIVALENTS

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

	As at 30.06.2018	As at 30.06.2017
	RM'000	RM'000
Cash and bank balances	51,266	55,088
Short-term deposits	18,612	8,341
Cash and cash equivalents	<u>69,878</u>	<u>63,429</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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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 2017, 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 2017.

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 2017, except for the adoption of the following MFRS:

<u>Description</u>	<u>Effective Date</u>
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Amendments to MFRS 1 First-Time Adoption of MFRS (Annual Improvements to MFRS Standard 2014-2016 Cycle)	1 January 2018
Amendments to MFRS 4 Insurance Contract Liabilities (Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts)	1 January 2018
Amendments to MFRS 128 Investments in Associate and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2018
IC interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

The Company has concluded that it meets the predominance criteria under Amendments to MFRS 4 Insurance Contracts. Hence, the Company will defer the adoption of MFRS 9 Financial Instruments until 1 January 2021, which is in line with the adoption of MFRS 17 Insurance Contracts. The additional disclosures are as set out in Note 23.

Other than as discussed above, the adoption of the above amendments/interpretation 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.

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 2018.

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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 2018, other than as disclosed in Note 15.

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 2018.

7. DIVIDENDS

A first and final dividend of 33.33 sen per share, amounting to RM100,000,000 for the financial year ended 31 December 2017, was approved at the Annual General Meeting held on 4 June 2018 and the dividend was paid on 12 June 2018.

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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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
Cost				
At 1 January 2017	40,000	4,431	2,585	47,016
Additions	-	24	491	515
Transfer from computer software in progress	-	2,249	(2,249)	-
Transfer to related company	-	-	(32)	(32)
At 31 December 2017/1 January 2018	<u>40,000</u>	<u>6,704</u>	<u>795</u>	<u>47,499</u>
Additions	-	1	172	173
Transfer from property and equipment	-	3	-	3
At 30 June 2018	<u>40,000</u>	<u>6,708</u>	<u>967</u>	<u>47,675</u>
Accumulated amortisation				
At 1 January 2017	16,454	2,060	-	18,514
Amortisation during the financial year	<u>5,136</u>	<u>688</u>	-	<u>5,824</u>
At 31 December 2017/1 January 2018	21,590	2,748	-	24,338
Amortisation during the financial period	<u>1,754</u>	<u>548</u>	-	<u>2,302</u>
At 30 June 2018	<u>23,344</u>	<u>3,296</u>	-	<u>26,640</u>
Net carrying amount				
At 30 June 2018	<u>16,656</u>	<u>3,412</u>	<u>967</u>	<u>21,035</u>
At 31 December 2017	<u>18,410</u>	<u>3,956</u>	<u>795</u>	<u>23,161</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

	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000
Equity securities		
- Quoted in Malaysia	712,433	841,535
- Quoted outside Malaysia	115,305	39,690
- Unquoted	1,944	1,944
Real estate investment trusts	5,726	6,496
Unit trust funds*	202,158	193,259
Malaysian Government Securities	423,657	511,559
Government Investment Issues	182,689	183,893
Corporate debt securities		
- Unquoted	1,420,525	1,354,692
Accrued interest	20,856	21,498
	3,085,293	3,154,566
Current	1,150,258	1,201,374
Non-current	1,935,035	1,953,192
	3,085,293	3,154,566

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

	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000
Equity securities		
- Quoted in Malaysia	439,085	521,921
- Quoted outside Malaysia	12,645	12,663
Real estate investment trusts	5,536	7,543
Unit trust funds*	108,843	59,370
Malaysian Government Securities	28,558	40,950
Government Investment Issues	23,670	24,302
Corporate debt securities		
- Unquoted	234,418	242,177
Mutual funds		
- Quoted outside Malaysia	567,200	618,047
Forward foreign exchange contract	38	4,284
Accrued interest	3,134	3,413
	1,423,127	1,534,670

* 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 30.06.2018	As at 31.12.2017
	RM'000	RM'000
Current	1,216,550	1,305,919
Non-current	206,577	228,751
	<u>1,423,127</u>	<u>1,534,670</u>

During the six months period ended 30 June 2018, 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 30.06.2018	As at 31.12.2017
	RM'000	RM'000
Reinsurance assets on:		
- Insurance contract liabilities	1,698	1,272
- Insurance claims liabilities	5,674	5,140
	<u>7,372</u>	<u>6,412</u>

15. INSURANCE CONTRACT LIABILITIES

	Gross		Net	
	As at 30.06.2018	As at 31.12.2017	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000	RM'000	RM'000
Actuarial liabilities	2,446,808	2,402,886	2,445,110	2,401,614
Unallocated surplus	41,060	40,603	41,060	40,603
Fair value reserve	24,992	108,784	24,992	108,784
Asset revaluation reserve	1,480	1,480	1,480	1,480
Investment-linked policyholders' account	1,334,826	1,394,287	1,334,826	1,394,287
	<u>3,849,166</u>	<u>3,948,040</u>	<u>3,847,468</u>	<u>3,946,768</u>
Current	1,401,319	1,486,537	1,401,391	1,486,685
Non-current	2,447,847	2,461,503	2,446,077	2,460,083
	<u>3,849,166</u>	<u>3,948,040</u>	<u>3,847,468</u>	<u>3,946,768</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 30.06.2018	As at 31.12.2017	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000	RM'000	RM'000
At 1 January	3,948,040	3,591,347	3,946,768	3,586,862
Inforce reserve movement	33,943	73,841	33,580	73,090
New business reserve	13,350	15,689	13,287	15,485
Discount rate and other changes	(3,371)	30,798	(3,371)	34,966
Unallocated surplus	457	(22,799)	457	(22,799)
Fair value reserve, net of tax	(83,792)	62,008	(83,792)	62,008
Asset revaluation reserve				
- Revaluation adjustment	-	30	-	30
- Reversal of accumulated depreciation on revaluation	-	334	-	334
	-	364	-	364
Investment-linked policyholders' account	(59,461)	196,792	(59,461)	196,792
At 30 June/31 December	<u>3,849,166</u>	<u>3,948,040</u>	<u>3,847,468</u>	<u>3,946,768</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 2018, the applicable assumption changes resulted in lower actuarial liabilities of RM3.4 million (30 June 2017: higher actuarial liabilities of RM24.8 million), with a corresponding decrease in unallocated surplus for the participating business of RM0.7 million (30 June 2017: decrease in unallocated surplus of RM14.9 million) and increase in net profit before tax of RM4.1 million (30 June 2017: decrease in net profit before tax of RM9.9 million).

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL ASSET/(LIABILITY) 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.

	Notional amount RM'000	Fair value gain/(loss) recognised as		Net carrying amount RM'000
		Financial Asset RM'000	Financial Liabilities RM'000	
30 June 2018				
Hedging derivative:				
Forward foreign exchange contract (note 13(b))	7,749	38	-	38
Forward foreign exchange contract	412,117	-	(3,760)	(3,760)
31 December 2017				
Hedging derivative:				
Forward foreign exchange contract (note 13(b))	454,603	4,284	-	4,284

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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:

	<u>30.06.2018</u>	<u>Cumulative 6 months ended 30.06.2017</u>
Expenses/(income):		
Intermediate holding company		
Reimbursement of personnel expenses	3,466	3,687
Reimbursement of software maintenance expenses	999	1,065
Waiver of prior years software maintenance expenses	-	(3,047)
Provision of information technology infrastructure support	404	-
Reimbursement of meeting and conference expenses	706	-
Reimbursement of overhead expenses	(261)	(100)
Reimbursement of consultation fee	5	22
Reimbursement of general administrative expenses	-	5
Reimbursement of travelling expenses	11	-
Reimbursement of director fee	22	22
	<u> </u>	<u> </u>
Subsidiaries of ultimate holding company		
Rental of office premises	(91)	(408)
Outsourced information technology service expenses	-	128
Software development expenses	-	29
General administrative and human resource service fee	-	(4)
	<u> </u>	<u> </u>
Subsidiaries of immediate holding company		
Outsourcing fee income	(1,858)	(1,743)
Outsourcing fee expenses	-	46
Fund management fee expenses	5,306	4,892
Rental of office premises	(338)	(335)
Management and advisory fees	50	50
	<u> </u>	<u> </u>
Immediate holding company		
Outsourcing fee income	(565)	(565)
Outsourcing fee expenses	362	145
Rental income	(54)	(57)
Rental expenses	594	594
	<u> </u>	<u> </u>

The related party transactions were ranked by countries and total in aggregate as below:

	<u>30.06.2018</u>	<u>Cumulative 6 months ended 30.06.2017</u>
Expenses		
Hong Kong	5,613	4,801
Malaysia	6,312	5,884
	<u> </u>	<u> </u>

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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
30 June 2018					
Financial assets					
AFS financial assets	3,085,293	-	-	-	3,085,293
Financial assets at FVTPL	-	1,423,127	-	-	1,423,127
Loans and receivables	-	-	332,441	-	332,441
Insurance receivables	-	-	16,625	-	16,625
Cash and cash equivalents	-	-	69,878	-	69,878
	<u>3,085,293</u>	<u>1,423,127</u>	<u>418,944</u>	<u>-</u>	<u>4,927,364</u>
Financial liabilities					
Financial liabilities at FVTPL	-	3,760	-	-	3,760
Insurance payables	-	-	-	536,418	536,418
Other payables	-	-	-	92,719	92,719
	<u>-</u>	<u>3,760</u>	<u>-</u>	<u>629,137</u>	<u>632,897</u>
31 December 2017					
Financial assets					
AFS financial assets	3,154,566	-	-	-	3,154,566
Financial assets at FVTPL	-	1,534,670	-	-	1,534,670
Loans and receivables	-	-	307,803	-	307,803
Insurance receivables	-	-	23,971	-	23,971
Cash and cash equivalents	-	-	85,828	-	85,828
	<u>3,154,566</u>	<u>1,534,670</u>	<u>417,602</u>	<u>-</u>	<u>5,106,838</u>
Financial liabilities					
Insurance payables	-	-	-	526,936	526,936
Other payables	-	-	-	88,639	88,639
	<u>-</u>	<u>-</u>	<u>-</u>	<u>615,575</u>	<u>615,575</u>

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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 30.06.2018</u>	<u>As at 31.12.2017</u>	<u>As at 30.06.2018</u>	<u>As at 31.12.2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Carrying amount	10,248	10,351	51,486	51,486
Fair value as stated in valuation report*	10,351	10,351	51,486	51,486

* Based on the valuation conducted by an independent qualified valuer as at 29 December 2017.

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>
2017			
Freehold/ investment property	Income method	Term period's net yield Reversionary period's net yield Void factor Average rental for term period Average rental for reversionary period Outgoings for term period Outgoings for reversionary period	6.00% 6.25% 5.00% RM4.40 – RM5.03 psf RM4.50 psf RM1.60 psf RM1.60 psf

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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:

	Freehold property		Investment property	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
At 1 January	10,351	10,321	51,486	50,913
Depreciation charge for the period/year	(103)	(334)	-	-
Fair value gain	-	364	-	573
At 30 June/31 December	<u>10,248</u>	<u>10,351</u>	<u>51,486</u>	<u>51,486</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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19. DETERMINATION OF FAIR VALUES AND FAIR VALUE HIERARCHY (CONTINUED)

b) Financial assets and financial liabilities (continued)

(ii) 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.

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
30 June 2018			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	712,433	712,433	-
- Quoted outside Malaysia	115,305	115,305	-
Real estate investment trusts	5,726	5,726	-
Unit trust funds	202,158	202,158	-
Malaysian Government Securities	423,657	-	423,657
Government Investment Issues	182,689	-	182,689
Corporate debt securities			
- Unquoted	1,420,525	-	1,420,525
Accrued interest	20,856	-	20,856
	<u>3,083,349</u>	<u>1,035,622</u>	<u>2,047,727</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	439,085	439,085	-
- Quoted outside Malaysia	12,645	12,645	-
Real estate investment trusts	5,536	5,536	-
Unit trust funds	108,843	108,843	-
Malaysian Government Securities	28,558	-	28,558
Government Investment Issues	23,670	-	23,670
Corporate debt securities			
- Unquoted	234,418	-	234,418
Mutual funds			
- Quoted outside Malaysia	567,200	567,200	-
Forward foreign exchange contract	38	-	38
Accrued interest	3,134	-	3,134
	<u>1,423,127</u>	<u>1,133,309</u>	<u>289,818</u>
	<u>4,506,476</u>	<u>2,168,931</u>	<u>2,337,545</u>
Financial liabilities at FVTPL			
Forward foreign exchange contract	3,760	-	3,760

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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
31 December 2017			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	841,535	841,535	-
- Quoted outside Malaysia	39,690	39,690	-
Real estate investment trusts	6,496	6,496	-
Unit trust funds	193,259	193,259	-
Malaysian Government Securities	511,559	-	511,559
Government Investment Issues	183,893	-	183,893
Corporate debt securities			
- Unquoted	1,354,692	-	1,354,692
Accrued interest	21,498	-	21,498
	<u>3,152,622</u>	<u>1,080,980</u>	<u>2,071,642</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	521,921	521,921	-
- Quoted outside Malaysia	12,663	12,663	-
Real estate investment trusts	7,543	7,543	-
Unit trust funds	59,370	59,370	-
Malaysian Government Securities	40,950	-	40,950
Government Investment Issues	24,302	-	24,302
Corporate debt securities			
- Unquoted	242,177	-	242,177
Mutual funds			
- Quoted outside Malaysia	618,047	618,047	-
Forward foreign exchange contract	4,284	-	4,284
Accrued interest	3,413	-	3,413
	<u>1,534,670</u>	<u>1,219,544</u>	<u>315,126</u>
	<u>4,687,292</u>	<u>2,300,524</u>	<u>2,386,768</u>

Unquoted equity securities of RM1,944,444 (31 December 2017: 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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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:

	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	150,000	150,000
Retained earnings of the Company*	215,352	317,352
Eligible contract liabilities	658,390	634,240
	<u>1,023,742</u>	<u>1,101,592</u>
Eligible Tier 2 Capital		
Eligible reserves	31,174	121,114
Amounts deducted from capital	(22,487)	(22,217)
Total Capital Available	<u>1,032,429</u>	<u>1,200,489</u>

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

21. CAPITAL AND OTHER COMMITMENTS

	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	<u>15,000</u>	<u>16,500</u>

The Company is committed to pay annual fees under the terms of the exclusive bancassurance agreement. The annual fees will be expensed off to the profit or loss in the year of settlement.

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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 2018

	Shareholder's Fund	Insurance Funds		Elimination	Total
		Life Fund	Investment- linked funds		
Assets	RM'000	RM'000	RM'000	RM'000	RM'000
Property and equipment	-	16,788	-	-	16,788
Investment property	-	51,486	-	-	51,486
Intangible assets	16,655	4,380	-	-	21,035
Loans and receivables	97,422	178,786	152,591	(95,506)	333,293
Available-for-sale financial assets	366,372	2,718,921	-	-	3,085,293
Financial assets at fair value through profit or loss	-	217,532	1,205,595	-	1,423,127
Reinsurance assets	-	7,372	-	-	7,372
Insurance receivables	-	16,625	-	-	16,625
Cash and cash equivalents	1,958	63,175	4,745	-	69,878
Total assets	482,407	3,275,065	1,362,931	(95,506)	5,024,897
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	299,277	-	-	-	299,277
Fair value reserves	4,702	-	-	-	4,702
Total equity	453,979	-	-	-	453,979
Insurance contract liabilities	-	2,514,340	1,334,826	-	3,849,166
Insurance claim liabilities	-	64,087	-	-	64,087
Financial liabilities at fair value through profit or loss	-	-	3,760	-	3,760
Deferred tax liabilities	20,823	(1,534)	(1,001)	-	18,288
Insurance payables	-	536,418	-	-	536,418
Current tax liabilities	910	(3,715)	9,285	-	6,480
Other payables	6,695	165,469	16,061	(95,506)	92,719
Total equity, policyholders' funds and liabilities	482,407	3,275,065	1,362,931	(95,506)	5,024,897

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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 2017

	Shareholder's fund RM'000	Insurance funds		Elimination RM'000	Total RM'000
		Life fund RM'000	Investment- linked funds RM'000		
Assets					
Property and equipment	-	17,544	-	-	17,544
Investment properties	-	51,486	-	-	51,486
Intangible assets	18,410	4,751	-	-	23,161
Loans and receivables	131,563	182,491	123,902	(129,465)	308,491
Available-for-sale financial assets	409,524	2,745,042	-	-	3,154,566
Financial assets at fair value through profit or loss	-	238,228	1,296,442	-	1,534,670
Reinsurance assets	-	6,412	-	-	6,412
Insurance receivables	-	23,971	-	-	23,971
Cash and cash equivalents	10,288	72,644	2,896	-	85,828
Total assets	569,785	3,342,569	1,423,240	(129,465)	5,206,129
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	386,340	-	-	-	386,340
Fair value reserve	10,850	-	-	-	10,850
Total equity	547,190	-	-	-	547,190
Insurance contract liabilities	-	2,553,753	1,394,287	-	3,948,040
Insurance claims liabilities	-	56,489	-	-	56,489
Deferred tax liabilities	22,275	6,495	7,656	-	36,426
Insurance payables	-	526,936	-	-	526,936
Current tax liabilities	(2,942)	(2,062)	7,413	-	2,409
Other payables	3,262	200,958	13,884	(129,465)	88,639
Total equity, policyholders' funds and liabilities	569,785	3,342,569	1,423,240	(129,465)	5,206,129

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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 2018**

	Insurance funds				Total
	Shareholder's fund	Investment- linked funds		Elimination	
	RM'000	Life fund RM'000	RM'000	RM'000	RM'000
Premium income					
Gross premiums	-	275,204	163,939	(669)	438,474
Premiums ceded to reinsurers	-	(22,156)	-	-	(22,156)
Net premiums	-	253,048	163,939	(669)	416,318
Investment income	8,908	65,763	14,544	-	89,215
Net realised gains	337	32,020	-	-	32,357
Net fair value losses	(1,394)	(27,528)	(82,235)	-	(111,157)
Fee income	-	9,906	-	(7,482)	2,424
Other operating income	-	42	1,062	-	1,104
Total revenue	7,851	333,251	97,310	(8,151)	430,261
Gross benefits and claims paid and payable	-	(186,644)	(149,011)	-	(335,655)
Claims ceded to reinsurers	-	6,120	-	-	6,120
Gross change in insurance contract liabilities	-	(44,379)	59,461	-	15,082
Change in insurance contract liabilities ceded to reinsurers	-	426	-	-	426
Net claims	-	(224,477)	(89,550)	-	(314,027)
Fee and commission expenses	-	(30,347)	-	-	(30,347)
Investment expenses	(445)	(4,392)	-	-	(4,837)
Management expenses	(6,184)	(49,723)	(9,664)	8,154	(57,417)
Other operating (expenses) /income	(1,760)	(5,311)	1,904	(3)	(5,170)
Other expenses	(8,389)	(89,773)	(7,760)	8,151	(97,771)
(Loss)/profit from operations	(538)	19,001	-	-	18,463
Transfer from/(to) revenue account	19,001	(19,001)	-	-	-
Profit before taxation	18,463	-	-	-	18,463
Taxation	(5,526)	-	-	-	(5,526)
Net profit for the financial period	12,937	-	-	-	12,937

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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

	<u>Insurance funds</u>				<u>Total</u> <u>RM'000</u>
	<u>Shareholder's</u> <u>fund</u> <u>RM'000</u>	<u>Life fund</u> <u>RM'000</u>	<u>Investment-</u> <u>linked</u> <u>funds</u> <u>RM'000</u>	<u>Elimination</u> <u>RM'000</u>	
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
Total revenue	<u>8,027</u>	<u>324,878</u>	<u>273,991</u>	<u>(6,537)</u>	<u>600,359</u>
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
Net claims	<u>-</u>	<u>(222,298)</u>	<u>(236,537)</u>	<u>-</u>	<u>(458,835)</u>
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)
Other expenses	<u>(8,895)</u>	<u>(84,288)</u>	<u>(37,454)</u>	<u>6,537</u>	<u>(124,100)</u>
(Loss)/profit from operations	(868)	18,292	-	-	17,424
Transfer from/(to) revenue account	18,292	(18,292)	-	-	-
Profit before taxation	<u>17,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,424</u>
Taxation	(5,200)	-	-	-	(5,200)
Net profit for the financial period	<u>12,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,224</u>

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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
30 June 2018				
Cash flows from:				
Operating activities	91,670	(9,075)	1,849	84,444
Investing activities	-	(394)	-	(394)
Financing activities	(100,000)	-	-	(100,000)
Net (decrease)/increase in cash and cash equivalents	(8,330)	(9,469)	1,849	(15,950)
At beginning of financial year	10,288	72,644	2,896	85,828
At end of financial period	1,958	63,175	4,745	69,878
30 June 2017				
Cash flows from:				
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

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NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

23. Additional disclosures under Amendments to MFRS 4 Insurance Contract Liabilities

In order to compare with entities applying MFRS 9, the amendments require deferring entities to disclose additional information including contractual cash flows characteristics and credit exposure of the financial assets. The following table presents the Group's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

For the six months period ended 30 June 2018	Fair value as at 1 January 2018 RM'000	Change in fair value* RM'000	Fair value as at 30 June 2018 RM'000	Result of the cash flows characteristics test
Financial assets				
Equity securities				
- Quoted in Malaysia	1,363,456	(211,938)	1,151,518	Non-SPPI
- Quoted outside Malaysia	52,353	75,597	127,950	Non-SPPI
Real estate investment trusts	14,039	(2,777)	11,262	Non-SPPI
Unit trust funds	252,629	58,372	311,001	Non-SPPI
Malaysian Government Securities				
Government Investment Issues	552,509	(100,294)	452,215	SPPI
Corporate debt securities				
- Unquoted	208,195	(1,836)	206,359	SPPI
Mutual funds	1,596,869	58,074	1,654,943	SPPI
Forward foreign exchange contract	618,047	(50,847)	567,200	Non-SPPI
Accrued interest	4,284	(4,246)	38	Non-SPPI
Loans and receivables	24,911	(921)	23,990	SPPI
Cash and cash equivalents	307,803	24,638	332,441	SPPI
	85,828	(15,950)	69,878	SPPI
	<u>5,080,923</u>	<u>(172,128)</u>	<u>4,908,795</u>	

* Includes purchases, disposals, maturities and realised/unrealised gains/(losses).

The following table shows the fair value of financial assets by credit quality:

As at 30 June 2018	AAA RM'000	AA RM'000	A RM'000	Non-rated RM'000	Total RM'000
Financial assets					
Malaysian Government Securities					
	-	-	-	452,215	452,215
Government Investment Issues					
	-	-	-	206,359	206,359
Corporate debt securities					
- Unquoted	787,988	454,076	13,698	399,181	1,654,943
Accrued interest	9,525	3,693	156	10,616	23,990
Loans and receivables	-	-	-	332,441	332,441
Cash and cash equivalents	69,878	-	-	-	69,878
	<u>867,391</u>	<u>457,769</u>	<u>13,854</u>	<u>1,400,812</u>	<u>2,739,826</u>