

Company No.

814942	M
---------------	----------

MANULIFE INSURANCE BERHAD

(Incorporated in Malaysia)

STATUTORY REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2016

Company No.

814942	M
---------------	----------

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

CONTENTS	PAGE
DIRECTORS' REPORT	1 - 25
STATEMENT BY DIRECTORS	26
STATUTORY DECLARATION	26
INDEPENDENT AUDITORS' REPORT	27 - 30
STATEMENT OF FINANCIAL POSITION	31
STATEMENT OF PROFIT OR LOSS	32
STATEMENT OF TOTAL COMPREHENSIVE INCOME	33
STATEMENT OF CHANGES IN EQUITY	34
STATEMENT OF CASH FLOWS	35
NOTES TO THE FINANCIAL STATEMENTS	36 - 111

Company No.

814942	M
--------	---

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 2016.

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	<u>55,443</u>

DIVIDENDS

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

The directors do not recommend the payment of any final 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 share capital of the Company during the financial year.

PROVISION OF INSURANCE LIABILITIES

Before the financial statements 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 as required by Bank Negara Malaysia ("BNM").

Company No.

814942	M
--------	---

**MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)****DIRECTORS' REPORT (CONTINUED)****BAD AND DOUBTFUL DEBTS**

Before the financial statements 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 there were no known bad debts to be written off and that adequate allowance for impairment losses had been made.

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

CURRENT ASSETS

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that any current assets, 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 its 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.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

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.

DIRECTORS

The directors who have held office during the financial year to the date of this report are:

Dato' Md Agil bin Mohd Natt
Mark Steven O'Dell
Datuk Seri Panglima Mohd Annuar bin Zaini
Lim Hun Soon @ David Lim
Leung Rockson Lok-Shuen
Dr. Gopakumar Kurup (appointed on 22 August 2016)
Dato' Dr. Nik Nozrul Thani bin N Hassan Thani (resigned on 1 January 2016)

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, Dato' Md Agil bin Mohd Natt and Leung Rockson Lok-Shuen shall retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.

In accordance with 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, Dr. Gopakumar Kurup shall retire at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS (CONTINUED)****Profile of Directors**

The following are the profile of the directors of the Company:

Dato' Md Agil bin Mohd Natt
Chairman/Independent Non-Executive Director

Dato' Md Agil bin Mohd Natt, aged 66, a Malaysian, was appointed to the Board on 29 June 2012. He holds a Bachelor of Science in Economics (Hons) degree from Brunel University, London and a Master of Science in Finance degree from the CASS Business School, London. He also attended the Advanced Management Program, Harvard Business School in the United States of America.

He started his career in Corporate Finance with Bumiputra Merchant Bankers Berhad in 1977 before serving as Senior General Manager (Finance) at Island & Peninsular Bhd in 1982. He was also the Regional Chief Representative of Kleinwort Benson Ltd before joining Malayan Banking Berhad ("Maybank"). Dato' Agil Natt served the Maybank Group in various capacities including as Senior General Manager, Corporate Banking, Chief Executive Officer of Aseambankers Malaysia Berhad (now known as Maybank Investment Bank Berhad) and Executive Director and Deputy President of Maybank.

From 2006 until his retirement in 2011, Dato' Agil Natt served as President and Chief Executive Officer of the International Centre for Education in Islamic Finance (INCEIF), The Global University of Islamic Finance, set up by Bank Negara Malaysia.

He currently sits on the Boards of Cagamas Berhad, Credit Guarantee Corporation Malaysia Bhd, Export-Import Bank of Malaysia Bhd, Sogo (KL) Department Store Sdn Bhd, Sogo (KL) Sdn Bhd and Sumitomo Mitsui Banking Corporation Malaysia Berhad. He is also a member of the Board of Trustees of Yayasan Tun Abdul Razak.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS (CONTINUED)****Profile of Directors (continued)****Mark Steven O'Dell****Chief Executive Director/Executive Director**

Mr. Mark Steven O'Dell, aged 59, an American, was appointed to the Board on 24 June 2013. He holds both the Chartered Life Underwriter (CLU) and the Chartered Financial Consultant (ChFC) designations from the American College, USA.

Mr. O'Dell has over 35 years of experience in the life insurance business including 20 years in Asia across multiple geographies namely Singapore, Indonesia and Malaysia. Prior to his appointment as Group Chief Executive Officer, Mr. O'Dell served as the President and Chief Executive Officer of Manulife Taiwan since 2008. He was also instrumental in the establishment of Manulife Asset Management Taiwan.

In Asia, Mr. O'Dell has held various senior management roles which included successfully running life insurance companies in Indonesia, Malaysia and Singapore. His areas of expertise cover agency development, partnership distribution including bancassurance, wealth management as well as branch expansion.

Mr. O'Dell has also played an integral role in the development of the life insurance industry in the Asean region. While in Singapore, he served as the President of the Life Insurance Association and Financial Planning Association of Singapore. In 2006, he was named the "Personality of the Year" by the Asia Insurance Review for his contribution to the industry and his leadership in corporate social responsibility. He has served on numerous non-profit Boards, including the Singapore Cancer Society.

Mr. O'Dell is a member of the Executive Committee of the Board of Directors. He also sits on the Boards of Manulife Chinabank Life Assurance Corporation, Manulife Financial Plans, Inc, The Manufacturers Life Insurance Co. (Phils), Inc, Manulife Holdings Berhad and Manulife Asset Management Services Berhad.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS (CONTINUED)****Profile of Directors (continued)****Datuk Seri Panglima Mohd Annuar bin Zaini**
Independent Non-Executive Director

Datuk Seri Panglima Mohd Annuar bin Zaini, aged 66, a Malaysian, was appointed to the Board on 5 July 2011. He holds a Master of Arts in Law & Diplomacy from The Fletcher School of Laws & Diplomacy, Tufts University, USA and a Bachelor of Arts with honours in Economics from University Kebangsaan Malaysia.

He began his career as an Administrative and Diplomatic Officer in 1977. He served the Malaysian Government at various ministries and departments and also the Perak State Government until he chose to take an optional retirement from the government service in 1999.

In February 2004, HRH The Sultan of Perak consented his appointment as Member of the Council of Elders to HRH Sultan of Perak. He is currently a Member of the Perak Council of Islamic Religion and Malay Customs and Board Member to the PKEINPK Sdn Bhd. He is also a Board Member of the University of Malaya, Chairman of University of Malaya Specialist Centre, Chairman of International University of Malaya Wales, a Distinguished Fellow to Institute of Strategic and International Studies (ISIS) Malaysia, Fellow Institute of Public Security of Malaysia and Adjunct Professor of Northern Corridor Economic Region Research Centre, Universiti Utara Malaysia.

He was Executive Director of Berjaya Corporation Berhad from 2001 to 2004, Chairman of Malaysian National News Agency (BERNAMA) from February 2004 to January 2010, Advisor and Chief Executive of Northern Corridor Implementation Authority from 2007 to 2009, a Board Member of the Royal Perak Medical College from 2005 to 2011, a Board Member of the Malaysian Airline System Berhad from 2005 to 2011 and a Board Member of PLUS Expressway Berhad from 2007 to 2012 and Tropicana Corporation Berhad from 2010 to 2015.

Datuk Seri Panglima Mohd Annuar is a member of the Audit Committee of the Board of Directors. He is also a Director and member of Group Audit Committee, Group Risk Management Committee and Group Nominating/Remuneration Committee of the Board of Manulife Holdings Berhad and a Director of Manulife Asset Management Services Berhad.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS (CONTINUED)****Profile of Directors (continued)****Lim Hun Soon @ David Lim**
Independent Non-Executive Director

Mr. Lim Hun Soon @ David Lim, aged 62, a Malaysian, was appointed to the Board on 17 July 2012. He graduated from the University of Leeds with a Bachelor of Arts in Economics in July 1978 and subsequently joined KPMG (formerly known as Peat Marwick Mitchell) in the United Kingdom in 1978. He qualified as a member of the Institute of Taxation, United Kingdom in 1981 and as a member of The Institute of Chartered Accountants in England and Wales ("ICAEW") in 1982. He then returned to Malaysia in 1982 to continue his service with KPMG where he was admitted in 1984 as a member of the Malaysian Association of Certified Public Accountants. Mr. David Lim was admitted as a Partner of the Firm in 1990.

Mr. David Lim has had an extensive career serving as an auditor under KPMG spanning 33 years. During his career with KPMG, he served in the Management Committee of the Firm from 1997 to 2001 as well as KPMG's Partnership Supervisory Council from 2002 to 2010. He was also the Asian Anchor Practice representative for Marketing in 2000 to 2001 in which he gained extensive and insightful knowledge from KPMG Global counterparts worldwide.

In 2006, he was assigned by KPMG to start up the Malaysian Audit Committee Institute ("ACI Malaysia"), which was a virtual worldwide initiative sponsored by KPMG to assist Independent Directors in enhancing their awareness and ability to implement effective board processes. After five (5) years of relentless groundwork, the ACI Malaysia is now a source of information for which Non-Executive Directors can turn to if they require information to help them in the discharge of their duties and responsibilities.

Mr. David Lim actively served as an Examiner for Company Law examinations in the Malaysian Institute of Certified Public Accountants ("MICPA") for over a period of ten (10) years. He was also the Chairman of the MICPA Code of Ethics Committee and a member of the Malaysian Institute of Accountants Code of Ethics Committee from 2002 to 2004. He had also developed an expertise from undertaking the role of Reporting Accountants in initial public offerings ("IPO") and was the audit partner in charge of over 30 IPOs whilst at KPMG. He retired from KPMG in 2011.

In July 2013, Mr. David Lim was appointed as a Council Member of the ICAEW representing South East Asia (Malaysia). His appointment represents a huge accolade for Malaysia, as it's the first time in ICAEW's sterling 130 years history, a Malaysian is represented on ICAEW's Council. In 2017, his appointment was extended for another term of two years till 2019.

Mr. David Lim sits on the Board of a few public listed companies, namely Ann Joo Resources Berhad, Sasbadi Holdings Berhad, Kawan Food Berhad and Ranhill Holdings Berhad as an Independent Non-Executive Director. He also sits on the Board of Affin Investment Berhad (formerly known as Affin Investment Bank Berhad), Affin Hwang Investment Bank Berhad, Rockwills Trustee Berhad, and Fairview Schools Berhad and a few private limited companies.

Mr. David Lim is the Chairman of the Audit Committee of the Board of Directors. He is also a Director and Chairman of the Group Audit Committee and Group Risk Management Committee, a member of the Group Nominating/Remuneration Committee of the Board of Manulife Holdings Berhad.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Profile of Directors (continued)

Leung Rockson Lok-Shuen
Non-Independent Non-Executive Director

Mr. Rockson Leung Lok-Shuen, aged 45, Australian, was appointed to the Board on 2 September 2013. He holds a Bachelor of Economics degree from the Macquarie University of Australia. He is a Fellow member of both the Institute of Actuaries of Australia and Financial Services Institute of Australasia.

Mr. Leung has been appointed Vice President and Chief Risk Officer, Asia. He is responsible for the Risk Management function in Asia overseeing all risks including enterprise, product, market, operational, insurance and underwriting risks. He joined Manulife in 2010 and he was the Vice President and Chief Actuary, Asia, responsible for the oversight of the actuarial function, including all external actuarial disclosures and capital management.

Mr. Leung brings with him 20 years of insurance finance and risk management experience in Asia and Australia. He began his career in Australia and returned to Asia in 1999 and had held various positions with ING Asia, including the Chief Insurance Risk Officer of China and the Chief Financial Officer of China. Prior to Manulife, he was the Deputy Chief Executive and Chief Financial Officer of Bank of China Group Life Insurance Company.

Mr. Leung is a Director and member of the Group Risk Management Committee of the Board of Manulife Holdings Berhad.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS (CONTINUED)****Profile of Directors (continued)****Dr. Gopakumar Kurup**
Independent Non-Executive Director

Dr. Gopakumar Kurup, aged 45, a Malaysian, was appointed to the Board on 22 August 2016. He graduated from the University College London with a B.Eng. (Hons) in Electronics and Electrical Engineering and MSc. in Microwaves and Optoelectronics. He also received his PhD. in Engineering from Monash University, Melbourne, Australia. Dr. Gopakumar Kurup has over 20 years of industry and innovation experience in the fields of Telecommunications and Information Communications Technology.

He was the Chief Executive Officer of Telekom Malaysia Berhad Research and Development ("R&D") till July 2016 and continues to serve as a Director and Board Member of the Company. Telekom Malaysia Berhad R&D won the prestigious Chairman's Innovation Award at the 2015 World Congress of IT (WCIT) and Malaysian Prime Minister's award for R&D. Dr. Gopakumar Kurup was recently appointed to head the TM Enterprise, Public Sector and Medium Business Product Management and as a Director of Inneonusa Sdn. Bhd., a smart services company.

He served as the Chief Technology Officer at Extol MSC, where he led the R&D team and headed the Extol-Google Enterprise Partnership. Prior to pursuing his PhD, he worked at Nippon Telegraph and Telephone, the pioneer technology partner for the Multimedia Super Corridor in Cyberjaya. He led the Next Generation Network R&D Group at NTT MSC to research, develop and deploy Internet Protocol v6. He started his career as an RF Engineer at Qualcomm Systems for supporting CDMA satellite data and fixed cellular networks.

Dr. Gopakumar Kurup has filed and granted several patents, published conference papers, presented at various international events and contributed to the Internet Engineering Task Force (IETF) and the Australian Telecommunications Corporative Research Centre (ATCRC).

Dr. Gopakumar Kurup is a member of the Audit Committee of the Board of Directors. He is also a Director and member of the Group Audit Committee and Group Risk Management Committee of the Board of Manulife Holdings Berhad.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS (CONTINUED)****Directors' Training**

The directors have participated in conferences, seminars and training programmes to keep abreast with the development in the business environment, financial sector issues and challenges as well as the new regulatory and statutory requirements. Several members of the Board have participated in the Financial Institutions Directors Education (FIDE) programme developed by Bank Negara Malaysia in collaboration with Perbadanan Insurans Deposit Malaysia and the International Centre for Leadership in Finance. The programme is aimed at promoting high impact boards in the financial institutions.

The training programmes and seminars attended by the directors during the financial year ended 31 December 2016 are, inter-alia, on areas relating to corporate governance, risk management, role of an effective Board, insurance, banking and finance. The conferences, seminars and training programmes attended by the directors during the financial year ended 31 December 2016 are as follows:

Financial and Capital Market

- Capital Market Director Programme for Fund Management (Modules 1, 2B, 3 & 4).
- Participating Bonus Supportability & Recommendation of Bonus Plan for Pre-Asset Share Block.
- 2nd Distinguished Board Leadership Series – Avoiding Financial Myopia.
- FIDE Forum Dialogue: Fin Tech's impact on Financial Institution.
- E-Vital/MFRS.FRS Updated (Run 2).
- Talk on Fintech and their impact.
- Future Finance Conference.
- Conference on Sustainable Financing.

Role of an Effective Board

- Leadership Excellence from The Chair.
- Board Leadership Series – Cyber Risk Oversight.
- Industry Briefing on Directors Register Implementation.
- International Directors Programme.
- Evolving expectations for Boards.
- Effective Board evaluation.

Corporate Governance (including audit, risk management and internal control)

- Mandatory Accreditation Programme.
- Implementation of FIDE Forum's Directors Register.
- Fraud Risk Management.
- Dialogue with Deputy Governor on the Corporate Governance Concept Paper.
- Risk Management workshop on Cyber-Security and Fraud.
- Directors Risk Management Programme – I am ready to manage Risks.
- Asian Credit Supplementation Conference.
- Talk on integrity in business operations.
- How to prepare for the new Malaysian Companies Act.

Others

- Understanding the Evolving Cybersecurity Landscape.
- 27th Annual Palm & Lauric Oils Conference & Exhibition.
- Navigating Through Shifting Sands.
- Cybersecurity Workshop.
- Malaysia-China Digital Forum.
- Retailing seminar.
- Talk on Branding.

Company No.**814942****M****MANULIFE INSURANCE BERHAD**
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS (CONTINUED)****Directors' Training (continued)**

The Board will continue to undergo other relevant training programmes and seminars to ensure that they remain well-equipped with the relevant knowledge as well as emergent strategic directions and ideas to discharge their duties effectively.

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 note 24 and note 31 to the financial statements and note 33 to the financial statements of the immediate holding company) 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, other than those arising from the Executive Stock Option Plan of the ultimate holding company.

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 and options on shares in the ultimate holding company are as follows:

	Number of options on ordinary shares		
	As at 1.1.2016	Granted	As at 31.12.2016
Manulife Financial Corporation			
- Direct interest			
Mark Steven O'Dell	66,118	14,034	(32,777)
			47,375

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 and are valid for 10 years from the grant date.

	Number of deferred/restricted/performance share units		
	As at 1.1.2016	Granted/ reinvested dividends	As at 31.12.2016
Manulife Financial Corporation			
- Direct interest			
Mark Steven O'Dell	17,581	13,192	(8,860)
Leung Rockson Lok-Shuen	17,582	13,117	(8,798)
			21,913
			21,901

Deferred, restricted and performance 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, subject to any performance conditions.

Other than as disclosed above, 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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****DIRECTORS' INTERESTS (CONTINUED)**

By virtue of the above directors' interests in the shares of the ultimate holding company, the said directors 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.

CORPORATE GOVERNANCE**Board responsibility and oversight**

The Board of Directors ("the Board") has generally complied with BNM's Minimum Standards for Corporate Governance (BNM/RH/PD/029-9). As at the date of this report, the Board comprises four (4) independent non-executive directors, one (1) non-independent non-executive director and one (1) executive director to enable a balanced and objective consideration of issues, hence facilitating optimal decision-making.

The Board has overall responsibility for putting in place a framework of good corporate governance within the Company, including the processes for financial reporting, risk management and compliance. Board members bring their independent judgement, diverse knowledge and experience in deliberations on issues pertaining to strategy, performance, resources and business conduct. The overall principal responsibilities of the Board are as follows:-

1. Providing clear objectives and policies within which the Senior Management of the Company is to operate.
2. Ensuring that there are adequate controls and systems in place to facilitate the implementation of the Company's policies.
3. Monitoring Management's success in implementing the approved strategies, plans and budget within the approved risk appetites.
4. Understanding the principal risks of all aspects of the businesses in which the Company is engaged in, setting of risk appetites, and ensuring that systems are in place to effectively monitor and manage these risks with a view to the long-term viability and success of the Company.
5. Monitoring and assessing development which may affect the Company's strategic plans.
6. Reviewing the adequacy and the integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
7. Avoiding conflicts of interest and ensuring appropriate disclosure of possible conflicts of interest.
8. Upholding and observing banking and relevant laws, rules and regulations.
9. The Board has adopted a schedule of matters specifically reserved for its approval which include, among others, reviewing and approving the following:-
 - (i) Strategic/business plans and annual budget.
 - (ii) New investments, divestments, mergers and acquisitions, corporate restructuring, including the establishment of subsidiaries, joint ventures or strategic alliances both locally and abroad.
 - (iii) Acquisition and disposal of significant assets of the Company.
 - (iv) Annual and interim financial statements before publishing to the Company's website and submission to BNM.
 - (v) Appointment of new Directors, CEO and other senior management positions based on recommendations of the Group Nominating/Remuneration Committee.
 - (vi) Related party transactions and capital financing.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)****Board Committees**

During the financial year, the Company used the services of the Board Committees of the immediate holding company, Manulife Holdings Berhad which are as follows:

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

Group Nominating/Remuneration Committee

The members of the Group Nominating/Remuneration Committee of the immediate holding company as at 31 December 2016 are as follows:

Name	Designation (of immediate holding company)
Dato' Dr. Zaha Rina binti Zahari	Chairman/Independent Non-Executive Director
Lim Hun Soon @ David Lim	Member/Independent Non-Executive Director
Datuk Seri Panglima Mohd Annuar bin Zaini	Member/Independent Non-Executive Director
Leung Rockson Lok-Shuen	Member/Non-Independent Non-Executive Director
Philip John Hampden-Smith (resigned on 14 October 2016)	Member/Independent Non-Executive Director

A total of five (5) Group Nominating/Remuneration Committee Meetings were held on 13 January 2016, 19 February 2016, 30 May 2016, 12 August 2016 and 28 November 2016, for the financial year ended 31 December 2016. The attendance of the Group Nominating/Remuneration Committee members are as follows:-

Name of Members	Attendance
Dato' Dr. Zaha Rina binti Zahari	5 out of 5 meetings
Lim Hun Soon @ David Lim	5 out of 5 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	5 out of 5 meetings
Leung Rockson Lok-Shuen	4 out of 5 meetings
Philip John Hampden-Smith (resigned on 14 October 2016)	3 out of 4 meetings

For the financial year ended 31 December 2016, the Group Nominating/Remuneration Committee has undertaken the following activities:

- (i) Reviewed the contribution and performance of each individual director, the Board as a whole and Board Committees;
- (ii) Reviewed and recommended the re-election of directors to the Board for recommendation to the shareholders for approval;
- (iii) Reviewed the Board nomination process;
- (iv) Reviewed the succession plan for senior management; and
- (v) Reviewed the training programmes to be attended by the Board.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)****Group Risk Management Committee**

The members of the Group Risk Management Committee of the immediate holding company as at 31 December 2016 are as follows:-

Name	Designation (of immediate holding company)
Lim Hun Soon @ David Lim	Chairman/Independent Non-Executive Director
Datuk Seri Panglima Mohd Annuar bin Zaini	Member/Independent Non-Executive Director
Leung Rockson Lok-Shuen	Member/Non-Independent Non-Executive Director
Dr. Gopakumar Kurup (appointed on 22 August 2016)	Member/Independent Non-Executive Director

A total of four (4) Group Risk Management Committee Meetings were held on 22 February 2016, 25 May 2016, 17 August 2016 and 21 November 2016, for the financial year ended 31 December 2016. The attendance of the Group Risk Management Committee members are as follows:

Name of Members	Attendance
Lim Hun Soon @ David Lim	4 out of 4 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	4 out of 4 meetings
Leung Rockson Lok-Shuen	4 out of 4 meetings
Dr. Gopakumar Kurup (appointed on 22 August 2016)	1 out of 1 meeting

The Group Risk Management Committee is responsible for:

1. Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval;
2. Reviewing and assessing the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
3. Ensuring adequate infrastructure, resources and systems are in place for an effective risk management, i.e. ensuring that staff are responsible for implementing risk management systems and perform these duties independently of the Group's risk taking activities; and
4. Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Through the Group Risk Management Committee, the Board oversees the Enterprise Risk Management Framework of the Group. The Group Risk Management Committee advises the Group Audit Committee and the Board on areas of high risks faced by the Group and the adequacy of compliance and control throughout the organisation. The Group Risk Management Committee reviews the risk management policies formulated by management and makes relevant recommendations to the Board for approval.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)****Audit Committee**

The members of the Audit Committee of the Company as at 31 December 2016 are as follows:-

Name	Designation
Lim Hun Soon @ David Lim	Chairman/Independent Non-Executive Director
Datuk Seri Panglima Mohd Annuar bin Zaini	Member/Independent Non-Executive Director
Dr. Gopakumar Kurup (appointed on 22 August 2016)	Member/Independent Non-Executive Director
Leung Rockson Lok-Shuen (resigned on 13 March 2017)	Member/Non-Independent Non-Executive Director

A total of five (5) Audit Committee Meetings were held on 22 February 2016, 21 March 2016, 25 May 2016, 17 August 2016 and 21 November 2016, for the financial year ended 31 December 2016. The attendance of the Audit Committee members are as follows:-

Name of Members	Attendance
Lim Hun Soon @ David Lim	5 out of 5 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	5 out of 5 meetings
Dr. Gopakumar Kurup (appointed on 22 August 2016)	1 out of 1 meeting
Leung Rockson Lok-Shuen (resigned on 13 March 2017)	4 out of 5 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. The Audit Committee reviews and verifies the related party transactions and conflicts of interest entered into by the Company and recommends the same to the Board for approval and consideration.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****CORPORATE GOVERNANCE (CONTINUED)****Key Internal Control and Risk Management Process**

The key processes that have been put in place to review the adequacy and integrity of the system of internal controls and risk management include the following:

1. The process of identifying, evaluating and managing the significant risks has been in place for the year under review and up to date of approval of this statement for inclusion in the Annual Report.
 - a. The Company has a strong risk management culture which supports its risk management practices. Overall, the Board of Directors is accountable for the oversight of risk management, and delegates this through a governance framework which is centered on the "3 lines of defence" model and that includes risk oversight committees, risk managers and risk policies and practices.
 - b. The Company's first line of defence is championed by its Chief Executive Officer ("CEO"). Businesses are ultimately accountable for the risks they assume and for the day-to-day management of the risks and related controls. The function heads are responsible for ensuring their functions align with the Group's risk taking philosophy, risk appetite and culture, for thoroughly evaluating and managing risk exposures consistent with the Group's enterprise risk policies and standards of practice.
 - c. The second line of defence includes the Group Risk Management and Compliance, with the assistance of Actuarial and Finance functions. Together this group and the Enterprise Risk Management Committee ("ERM") provide oversight of risk taking and risk mitigation activities across the Company.
 - d. As for the third line of defence, Internal Audit provides independent assurance that controls are effective and appropriate relative to the risk inherent in the business, and that risk mitigation programmes and risk oversight functions are effective in managing risks. In addition to the Internal Audit function, Manulife Regional and/or Corporate Office is also involved in independent oversight and peer reviews.
2. The Board provides stewardship and management oversight to ensure that the Management is qualified and competent. Organisational and procedural controls, and policies and procedures for major activities are reviewed, approved and monitored on a periodic basis.
3. Senior management directs and oversees the effective management of the Company's institutional operations, which includes developing business objectives, strategies, plans, organisational structure and controls and policies for the Board's review and approval. Senior management executes and monitors the achievement of the Board approved business objectives, strategies, and plans, the effectiveness of the organisational structure and controls and corporate governance practices, culture and ethics.
4. The Audit Committee ("AC") reviews audit issues concerning internal controls and risk management as identified by Audit Services - Malaysia ("AS-Malaysia"), external auditors and regulatory examiners. The AC annually reviews and approves the internal audit plan and budget to ensure that AS-Malaysia function operates effectively. The AC meets at least quarterly to review the internal audit reports tabled by AS-Malaysia. Also, the AC has active oversight on the AS-Malaysia's independence and objectivity on their scope of work.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****CORPORATE GOVERNANCE (CONTINUED)****Key Internal Control and Risk Management Process (continued)**

5. The Group Risk Management Committee ("GRMC") meets at least once quarterly to review both the key risks identified by Management and plans for the mitigation of these risks. The key risk areas examined are strategic risk, insurance risk, market and liquidity risk, credit risk and operational risk. A formalised risk assessment is conducted quarterly by the respective risk managers, comprising the heads of business units. For the key risks identified, senior management action plans are formulated and implemented. The results of the risk assessments are reviewed by the Enterprise Risk Management Committee before they are reported to the Board via the GRMC, to ensure that the risk management monitoring is independent.
6. The Head of AS-Malaysia reviews the appropriateness of the internal audit methodologies and practices periodically, to ensure that the internal audit function complies with sound internal auditing principles and practices and that there is a process in place to ensure the continued relevance and effectiveness of the methodologies and practices. The Charter for AS-Malaysia is reviewed and approved by the AC annually.
7. AS-Malaysia evaluates the Company's business risks, compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. A risk-based annual internal audit plan is developed based on AS-Malaysia's annual risk assessment on all identified auditable areas. The progress of the internal audit plan, a summary of internal audit issues and the status of corrective actions performed to address the internal audit issues are reported to the AC when it meets.
8. The Compliance function ensures that the Company works within the applicable statutory, regulatory and ethical framework defined by all applicable laws, regulations and guidelines governing the insurance, asset management and unit trust and private retirement schemes industries. The Business Unit Compliance Officer ensures that any compliance-related matters are reported to the senior management and the Board promptly. On a half-yearly basis, assessment and monitoring of the legislative compliance to applicable acts and regulations and internal policies and procedures are carried out to ensure that adequate risk management exists to assist senior management in identifying, addressing and integrating significant legislative or regulatory requirements into their business activities through appropriate internal control procedures and risk management practices.
9. There is a detailed and formalised annual business and budget planning process to ensure that the Company's business objectives are clearly defined. The Board reviews and approves the Company's business plan. Comprehensive management reports are submitted to the Board as and when it meets throughout the year. The Board monitors the Company's performance closely and senior management promptly follows up for any variances.
10. An annual review of the current and future financial position of the insurance business is performed by the Appointed Actuary ("AA"), as guided by Policy document issued by Bank Negara Malaysia's (BNM/RH/GL/003-17) Financial Condition Report and (BNM/RH/GL/003-24) Risk Based Capital Framework for Insurers. These include quarterly Capital Adequacy Ratio reporting, annual dynamic solvency testing, semi-annual stress testing and assessing the insurance business ability to withstand various adverse scenarios as part of the capital assessment procedures. Generally the appointment and duties of the AA is in accordance with BNM/RH/STD 029-5 - Appointed Actuary: "Appointment and Duties".

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****CORPORATE GOVERNANCE (CONTINUED)****Key Internal Control and Risk Management Process (continued)**

11. There are proper processes within the Company for hiring, termination and promotion of staff, formal training programmes for staff, annual and semi-annual performance appraisals and other relevant procedures in place to ensure staff members are competent, adequately trained in carrying out their roles and responsibilities and focused on achieving desired results and business objectives. Another key human resources initiative is succession planning. Succession planning is refreshed on an annual basis leveraging on outcomes of the talent review. Key roles are identified in consultation with senior management based on its criticality and availability. Identified high potentials are reflected in the succession plans depending on the role, growth opportunity, personal aspirations and mobility.
12. A comprehensive business continuity management programme is established and updated continuously to reflect changes in the operating environment to provide enterprise-wide planning and arrangements of key resources and procedures that enable the Company to respond to and continue to operate mission-critical business functions, while considering all functions across a broad spectrum of interruptions to the business arising from internal and external events. Various business continuity tests are performed on an annual basis, covering computer disaster recovery tests, table top exercise, call tree tests, integrated simulation tests, etc. Results of the tests performed are presented to the Board via the CEO reports for their review as part of its oversight role.
13. There is a clearly defined assignment of responsibilities to the Committees of the Board and to senior management to provide oversight and governance over the Company's activities. The Board, through its AC and GRMC, is responsible for overseeing the Company's management of its principal risks. The CEO is directly accountable to the Board of Directors for all risk taking activities and risk management practices. The Board and GRMC delegate accountability for risk taking and risk management to the CEO. The CEO, supported by the Risk Officers and ERM establish risk policies, guide risk-taking activity, monitor material risk exposures, and develop strategic risk management priorities, thereby continuously shaping and promoting our risk culture throughout the Company. The ERM consists of the Company CEO, CEO of Manulife Holdings Berhad, CEO of Manulife Asset Management Services Berhad ("MAMSB"), Chief Investment Officer of MAMSB, Group Chief Finance Officer ("GCFO"), Chief Legal & Compliance Officer, Chief Risk Officers, Risk Officers and Chief Human Resources Officer.
14. There are clearly documented authority limits, policies and procedures that underpin the internal control process, e.g. staff integrity, staff competency, check and balances, segregation of duties, independent checks and verification processes, system access controls and layers of internal transaction authorisation, which are set out in the policies and procedural manuals, guidelines, and directives issued by the Company and updated from time to time.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Key Internal Control and Risk Management Process (continued)

15. The Board has also received full assurance from the CEO and the CFO that the risk management and internal control system is operating adequately and effectively, in all material respects, based on the risk management framework adopted by the Company. The following are some of the key policies adopted by the Company:

Risk policies in place

The Enterprise Risk Policy sets out the overall Enterprise Risk Management framework by defining policies and standard of practice related to risk governance, risk identification, risk measurement, risk monitoring, risk control and mitigation. In addition, various key risk policies are in place to guide specific risk taking and management activities, described below.

On Strategic, Asset Liability, Market and Credit Risk, key policies in place are:

- a. Capital Management Plan/Policy is developed and endorsed by the Board of Directors of Company. The policy lays out the Management actions in response to various capital adequacy ratio scenarios below the high end of the internal target solvency.
- b. Investment Guidelines and Policy sets out the framework to ensure prudent management and control of the investment portfolios. It also sets out the roles and responsibilities relating to the management of investment portfolios and the acceptance level of risk vs. return. Specifically, it defines the asset mix parameters, exposure limits and policies to be applied in the management of investment portfolios.
- c. Reinsurance and Corporate Insurance Credit Policy is a policy which sets out the reinsurance and corporate insurance risk management framework. The philosophy is to minimise credit risk by applying three (3) main operating guidelines to all reinsurance/ insurance transactions, i.e.
 - (i) deal primarily with counterparties with Credit Ratings of A minus or better;
 - (ii) engage in reinsurance transactions with minimal credit risk whenever possible; and
 - (iii) diversify reinsurance counterparties to limit concentrations of credit risk.

Other relevant policies are also in place:

- d. Stress Testing Policy sets out the Company's internal process of conducting Stress Test in accordance to the requirements prescribed by BNM/RH/PD 029-7: Stress Testing issued by Bank Negara Malaysia, effective 1 September 2016.

For Product Risk, two (2) key policies are in place:

- e. Product Design and Pricing Policy to ensure that sound product design and pricing practices/strategies to allow the Group to meet its financial objectives.
- f. Underwriting and Claims Management Policy sets out the Company's underwriting and claims risk management framework that supports overall business strategies in markets where insurance products are offered; ensures that risk selection falls within the defined retention, product features and concentration limits that take into account the Company's overall tolerance for mortality and morbidity risk; ensures that all valid claims are honoured; and that underwriting and claims management practices support the Company's overall financial and risk objectives.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Key Internal Control and Risk Management Process (continued)

Risk policies in place (continued)

For Operational Risk, key policies in place are described below:

- g. Operational Risk Framework acts as an overarching framework document which governs the policy and standard on operational risk related.
- h. Anti-Money Laundering Policy outlines the responsibilities, accountabilities and processes to ensure that the Company effectively mitigates the risks associated with money laundering and terrorist financing activities in compliance with legal and regulatory requirements, for example, BNM/RH/STD 029-1 Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Insurance and Takaful (Sector 2).
- i. Fit and Proper Policy aims to ensure compliance with Bank Negara Malaysia's Guidelines on Fit and Proper that provides guidance on the application of Bank Negara Malaysia's guideline; provides minimum standards for determining the fitness, competency, integrity and propriety of persons who hold or are being considered for appointment to a key responsible person position; strengthen the governance framework within the Company operations; and promote confidence in the Company and its officers.
- j. Anti Fraud Policy outlines the prevention, identification and detection of fraud which is vital to the Company. The Anti-Fraud describes the framework within which the Company strives to:
 - (i) Prevent, identify, and detect fraud; and
 - (ii) Ensure that adequate controls are in place to accomplish those objectives.

As reliance on progressively more complex models for evaluating, analysing and reporting key information increases, model risk management becomes an ever more important element of the Company's risk management. Model risk management is a key element of safeguarding the financial well-being and reputation of the Company.

- k. Model Risk Management Policy outlines the programme to be followed to manage the risks associated with the use of business critical models. This Policy defines which models are within scope and establishes a programme to be followed to mitigate model risks associated with business critical models. The requirements identified by this Policy are designed to vet whether a model is conceptually sound, used as intended, executed in a substantially error-free manner and maintained on a go-forward basis.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)****Senior Management and other Material Risk Takers**

The Company's Senior Management who have company wide management responsibilities comprise of the following personnel:-

- 1) Chief Executive Officer
- 2) Chief Finance Officer
- 3) Chief Agency Officer
- 4) Head, Partnership Distribution
- 5) Chief Operating Officer
- 6) Chief Marketing & Pricing Officer
- 7) Chief Human Resource Officer
- 8) Head, Information Services
- 9) Appointed Actuary*
- 10) Chief Risk Officer*
- 11) Chief Compliance Officer*

* Personnel having control function

Other Material Risk Takers refers to an officer who is not a senior management of the Company who can materially commit or control significant amount of the Company's resources or whose actions are likely to have a significant impact on the Company's risk profile. They are defined as follows:-

- 12) Head, Finance
- 13) Chief Underwriter
- 14) Controller, Claims
- 15) Head, Agency Sales
- 16) Head, Bancassurance Sales
- 17) Head, Partner Development

Total compensation awarded to the senior management and other material risk takers (excluding control function) for the financial year are as below:-

Total compensation (RM'000)	Non-Deferred	Deferred			
	Awarded during the year	Granted during the year	Paid during the year	Implicit change in value*	Cumulative outstanding as at 31 December 2016
Fixed remuneration					
• Cash-based	7,788	-	-	-	-
• Shares and share-linked instruments	-	-	-	-	-
• Other	586	-	-	-	-
Variable remuneration					
• Cash-based	2,657	-	-	-	-
• Shares and share-linked instruments	41	1,807	1,728	1,047	3,651
• Other	64	-	-	-	-
	11,136	1,807	1,728	1,047	3,651

* Implicit change in value represents the change in value of deferred compensation arising from change in share price and performance vesting conditions

All of the Senior Management and Other Material Risk Takers received variable remuneration for the financial year. There were no guaranteed bonuses, sign-on awards or severance payments paid to this group during the financial year.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

The Company has taken concerted steps to ensure compliance with Bank Negara Malaysia's ("BNM") Corporate Governance (BNM/RH/PD/029-9) and its best practice applications. Nonetheless, the Company has identified the following gaps and action plans towards full compliance with the requirements of the guideline:-

Guideline/Requirements of BNM/RH/PD 029-9		Action Plan towards full compliance
1) Para 8	Key responsibilities	Board charter will be reviewed and tabled for approval by the end of third quarter 2017.
Para 8.2	The board must have a board charter that sets out the mandate, responsibilities and procedures of the board and the board committees, including the matters reserved for the board's decision.	
2) Para 9	Board meetings	
Para 9.4	A financial institution must ensure that attendance at a board meeting, by way other than physical presence, remains the exception rather than the norm, and is subject to appropriate safeguards to preserve the confidentiality of deliberations.	
Para 9.5	In respect of the quorum for board meetings, a financial institution must require at least half of the board members to be present	
3) Para 11	Composition of the board	
Para 11.6	The board must have a majority of independent directors at all times.	
Para 11.8	For the purpose of paragraph 11.7, the board must clearly define what constitutes a "significant business or other contractual relationship", taking into account the nature, size and complexity of the financial institution's operations.	
4) Para 12	Board committees	
Para 12.8	The board must ensure that the mandate and operating procedures for each board committee are set out in the board charter and clearly– (a) delineate the areas of authority delegated to the board committee; and (b) define reporting arrangements for keeping the board informed of the board committee's work, key deliberations and decisions on delegated matters.	
5) Para 14	Conflicts of interest	
Para 14.1	The board must establish a written policy to address directors' actual and potential conflicts of interest. At a minimum, the policy must– (a) identify circumstances which constitute or may give rise to conflicts of interests; (b) clearly define the process for directors to keep the board informed on any change in his circumstances that may give rise to a conflict of interest; (c) identify those responsible for maintaining updated records on each director's conflicts of interest; and (d) articulate how any non-compliance with the policy will be addressed.	
		Enhancements to the Directors' policy will be reviewed and tabled for approval by the end of the third quarter 2017.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Guideline/Requirements of BNM/RH/PD 029-9	Action Plan towards full compliance
<p>5) Para 14 Conflicts of interest (continued)</p> <p>Para 14.3 For the purpose of section 58(4) of the FSA and section 67(4) of the IFSA, the Bank specifies the following: identify circumstances which constitute or may give rise to conflicts of interests;</p> <ul style="list-style-type: none"> (a) an existing or proposed transaction or arrangement will be considered “material” if it is one which a director is required to declare under section 131 of the Companies Act 1965, unless the director or any person linked to him cannot reasonably be expected to derive a benefit or suffer a detriment from the transaction or arrangement in a way that will place the director in a position of conflict; and (b) an interested director must make the disclosure by way of a written notice to all members of the board and the company secretary– <ul style="list-style-type: none"> (i) as soon as practicable after being aware of his interest in the material transaction or arrangement; and (ii) if the material transaction or arrangement is being deliberated at a board meeting, before the commencement of that deliberation. <p>⁶ For the avoidance of doubt, this would include instances where the other directors are already aware of the interest.</p>	<p>Enhancements to the Directors’ policy will be reviewed and tabled for approval by the end of the third quarter 2017.</p>
<p>6) Para 19 Remuneration</p> <p>Para 19.2 Detailed remuneration policy – 19.9</p> <p>7) Appendix 4 Corporate governance disclosures</p> <p>Remuneration</p> <p>4. Qualitative disclosures</p>	<p>The Company is currently in compliance with the Manulife Global Remuneration Policy. The local remuneration policy will be established by the end of the third quarter 2017. The remuneration policy qualitative disclosure will be available for the financial year ending 31 December 2017.</p>

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**DIRECTORS' REPORT (CONTINUED)****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 policies on executive remuneration. None of the directors and senior management of the Company has, in any circumstances, conflict of interest referred to in the Financial Services Act 2013.

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 areas of communication.

Corporate independence

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/018-6) 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.

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 Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia.

INDEMNITY AND INSURANCE

During the financial year, the indemnity given or insurance effected for any Directors and officers of the Company amounts to RM20,000,000 in aggregate.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

SUBSEQUENT EVENT

The subsequent event after the financial year end is disclosed in note 36 to the financial statements.

HOLDING COMPANIES

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 AND AUDITORS' REMUNERATION

The auditors, Ernst & Young, have expressed their willingness to continue in office.

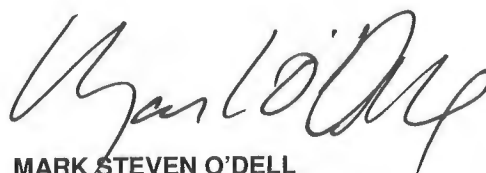
Auditors' remuneration is disclosed in note 24 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 22 March 2017.



DATO' MD AGIL BIN MOHD NATI
CHAIRMAN

Kuala Lumpur, Malaysia



MARK STEVEN O'DELL
DIRECTOR

Company No.

814942

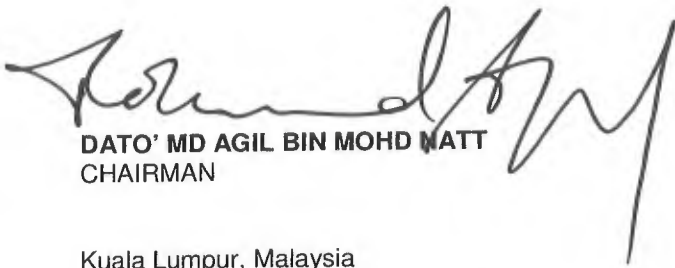
M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) AND SECTION 251(3) OF THE COMPANIES ACT, 2016**

We, Dato' Md Agil bin Mohd Natt and Mark Steven O'Dell, being two of the directors of Manulife Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 31 to 111 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 22 March 2017.



DATO' MD AGIL BIN MOHD NATT
CHAIRMAN



MARK STEVEN O'DELL
DIRECTOR

Kuala Lumpur, Malaysia

**STATUTORY DECLARATION
PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016**

I, Tham Kok Yoke, being the officer primarily responsible for the financial management of Manulife Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 31 to 111 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

Petaling Jaya

Subscribed and solemnly declared by the above named Tham Kok Yoke at Kuala Lumpur in Malaysia on 22 March 2017, before me.

COMMISSIONER FOR OATHS



814942 M

**Independent auditors' report to the member of
Manulife Insurance Berhad
(Incorporated in Malaysia)**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Manulife Insurance Berhad, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 31 to 111.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

814942 M

**Independent auditors' report to the member of
Manulife Insurance Berhad (Continued)
(Incorporated in Malaysia)**

Information other than the financial statements and auditors' report thereon (cont'd.)

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

814942 M

**Independent auditors' report to the member of
Manulife Insurance Berhad (Continued)
(Incorporated in Malaysia)**

Auditors' responsibilities for the audit of the financial statements (cont'd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

814942 M

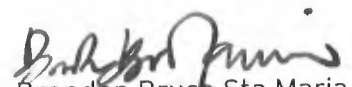
Independent auditors' report to the member of
Manulife Insurance Berhad (Continued)
(Incorporated in Malaysia)

Other matters

This report is made solely to the member of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.


Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
22 March 2017


Brandon Bruce Sta Maria
No. 2937/09/17(J)
Chartered Accountant

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Property and equipment	4	17,916	19,790
Investment property	5	50,913	51,320
Intangible assets	6	28,502	30,720
Loans and receivables	7	301,422	399,363
Available-for-sale financial assets	8(a)	2,877,618	2,721,196
Financial assets at fair value through profit or loss	8(b)	1,335,713	1,143,991
Reinsurance assets	9	8,611	4,561
Current tax assets		-	854
Insurance receivables	10	28,781	26,177
Cash and cash equivalents		91,081	64,578
TOTAL ASSETS		4,740,557	4,462,550
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	11	150,000	150,000
Retained earnings	12	346,913	291,470
Fair value reserve	12	2,920	9,639
TOTAL EQUITY		499,833	451,109
Insurance contract liabilities	13	3,591,347	3,405,306
Insurance claims liabilities	14	55,764	51,635
Financial liability at fair value through profit or loss	15	549	-
Deferred tax liabilities	16	25,907	32,029
Insurance payables	17	479,294	432,428
Current tax liabilities		5,128	-
Other payables	18	82,735	90,043
TOTAL LIABILITIES		4,240,724	4,011,441
TOTAL EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES		4,740,557	4,462,550

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

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Premium income			
Gross premiums		877,750	814,177
Premiums ceded to reinsurers		(27,130)	(16,104)
Net premiums	19	850,620	798,073
Investment income	20	167,251	161,743
Net realised gains	21	17,500	22,708
Net fair value losses	22	(68,733)	(92,227)
Fee income	23	3,280	3,343
Other operating income		1,309	1,604
Total revenue		971,227	895,244
Gross benefits and claims paid and payable		(561,167)	(603,781)
Claims ceded to reinsurers		10,260	5,279
Gross change in insurance contract liabilities		(192,072)	(133,010)
Change in insurance contract liabilities ceded to reinsurers		1,727	1,727
Net claims		(741,252)	(729,785)
Fee and commission expenses		(70,927)	(61,426)
Investment expenses		(8,888)	(8,360)
Management expenses	24	(110,895)	(102,591)
Other operating income/(expenses)	26	31,468	65,746
Other expenses		(159,242)	(106,631)
Profit before taxation		70,733	58,828
Taxation	27	(15,290)	(14,855)
Net profit for the financial year		55,443	43,973
Net profit attributable to:			
Equity holder of the Company		55,443	43,973
Basic and diluted earnings per share (sen)	28	18.48	14.66

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

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF TOTAL COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Net profit for the financial year		55,443	43,973
Other comprehensive losses, net of tax:			
Other comprehensive losses to be reclassified to profit or loss in subsequent periods:-			
Fair value change of available-for-sale financial assets:			
- Gross fair value change	8(c)	(14,250)	(2,174)
- Deferred tax	16	1,226	314
		(13,024)	(1,860)
Change in insurance contract liabilities arising from unrealised net fair value change	13	6,305	6
Net losses		(6,719)	(1,854)
Net other comprehensive losses to be reclassified to profit or loss in subsequent periods		(6,719)	(1,854)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:-			
Surplus from revaluation of property:			
- Gross surplus from revaluation		274	201
Changes in insurance contract liabilities arising from revaluation of property	13	(274)	(201)
Net gains		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive losses for the financial year		(6,719)	(1,854)
Total comprehensive income for the financial year		48,724	42,119
Total comprehensive income attributable to:			
Equity holder of the Company		48,724	42,119

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

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Company	Share capital RM'000	Fair value reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2015	150,000	11,493	247,497	408,990
Net profit for the financial year	-	-	43,973	43,973
Other comprehensive losses for the financial year	-	(1,854)	-	(1,854)
Total comprehensive (losses)/income for the financial year	-	(1,854)	43,973	42,119
At 31 December 2015/1 January 2016	150,000	9,639	291,470	451,109
Net profit for the financial year	-	-	55,443	55,443
Other comprehensive losses for the financial year	-	(6,719)	-	(6,719)
Total comprehensive (losses)/income for the financial year	-	(6,719)	55,443	48,724
At 31 December 2016	150,000	2,920	346,913	499,833

Included in the retained earnings are surplus from Non-participating life fund of the Company (net of deferred tax) of approximately RM69,414,000 (31 December 2015: RM71,155,000) as further disclosed in note 12. These amounts are only distributable upon the actual recommended transfer from the Non-participating life fund to the Shareholder's fund by the Appointed Actuary.

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

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		55,443	43,973
Adjustments for non-cash items	30	(123,901)	(135,705)
Operating losses before changes in operating assets and liabilities		(68,458)	(91,732)
Purchase of investments		(2,299,491)	(2,172,327)
Proceeds from disposal and maturity of investments		1,920,934	1,880,973
Interest income received		113,276	104,789
Dividend income received		47,838	49,648
Rental income received		4,859	3,685
Increase in insurance receivables		(2,442)	(2,723)
Increase in reinsurance assets		(4,050)	(1,917)
Decrease/(increase) in other receivables		3,551	(19,584)
Decrease in loans receivable		26,523	48,032
Decrease in fixed and call deposits		67,856	31,506
Increase in insurance contract liabilities		192,072	133,010
Increase in insurance claims liabilities		4,129	9,250
Increase in payables		47,277	61,509
Cash generated from operations		53,874	34,119
Income taxes paid		(22,820)	(24,455)
Net cash inflow from operating activities		31,054	9,664
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	4	(1,003)	(1,388)
Refurbishment costs on investment property	5	(164)	-
Purchase of intangible assets	6	(3,384)	(137)
Proceeds from disposal of property and equipment		-	36
Net cash outflow from investing activities		(4,551)	(1,489)
Net increase during the financial year		26,503	8,175
Cash and cash equivalents at 1 January		64,578	56,403
Cash and cash equivalents at 31 December		91,081	64,578

CASH AND CASH EQUIVALENTS

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

	2016 RM'000	2015 RM'000
Cash and bank balances	82,865	61,572
Short-term deposits	8,216	3,006
Cash and cash equivalents	91,081	64,578

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

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

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

Principal activities

The Company is engaged principally in the underwriting of life insurance business. There have been no significant changes in the principal activities 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 16th 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 in relation 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 these summary of significant accounting policies, and comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

(i) Adoption of new pronouncements in the current year

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new pronouncements effective from 1 January 2016 as follows:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
Annual Improvements to MFRSs 2012–2014 Cycle	1 January 2016

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(i) Adoption of new pronouncements in the current year (continued)

The adoption of the above new pronouncements did not have any significant effect on the disclosures or amounts recognised in the Company's financial statements.

(ii) Standards and amendments/improvements to published standards and interpretation that are issued but not yet effective

The standards and amendments/improvements to published standards and interpretation that are issued but not yet effective up to the financial year end of the Company are disclosed below. The Company intends to adopt these new pronouncements, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
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
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	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 128 Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 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
Transfer of Investment Property (Amendments to MFRS 140)	1 January 2018
IC interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16 Leases	1 January 2019

The directors expect that the adoption of the above new pronouncements will have no material impact on the financial statements in the period of initial application except as discussed below:

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards and amendments/improvements to published standards that are issued but not yet effective (continued)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company has performed the assessment and does not expect significant financial impact to the Company’s financial results upon the adoption of the new standard on the required effective date.

MFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

MFRS 9 is issued by the MASB in respect of its application in Malaysia. It is equivalent to IFRS 9 as issued by IASB, including the effective and issuance dates.

During 2016, the Company has performed a high-level impact assessment of all three aspects of MFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of MFRS 9. The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

The Company is still assessing the option to defer the application of MFRS 9 until the earlier effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, by applying the temporary exemption from applying MFRS 9 as introduced by the Amendments to MFRS 4 as discussed in the following section.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards and amendments/improvements to published standards that are issued but not yet effective (continued)

Amendments to MFRS 4

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income, an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

In December 2016, MASB issued amendments to MFRS 4 which is equivalent to amendments to IFRS 4.

The Company has performed an assessment of the requirements under the amendment to MFRS 4 and reached the conclusion that the Company meets the predominance criteria and has the option to defer the adoption of MFRS 9 or to apply the overlay approach. The Company is still assessing these available options of applying the temporary exemption for its financial year beginning on 1 January 2018.

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)****(ii) Standards and amendments/improvements to published standards that are issued but not yet effective (continued)****MFRS 16 Leases (continued)**

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Company is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

(b) Property and equipment

Property and equipment are stated at cost or valuation less accumulated depreciation and any 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 building which are substantially occupied by the Company for its operations are classified under property and equipment.

Land and building 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 any accumulated impairment losses. These valuations are reviewed annually and a formal valuation by an independent professional valuer is carried out once in every five years or earlier if the carrying values of the revalued asset are materially different from the market values. Professional and qualified external valuer is engaged to perform the formal valuation. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the external valuer, which valuation techniques and inputs to use. The valuation result is presented to the Board of Directors for approval prior to the adoption of the valuation report.

The Company analyses the movements in the values of the property on an annual basis. Desktop valuation is performed by the Company in the interim period to obtain an indicative fair value of the property. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to the valuation report and other relevant documents. The Company, in conjunction with the external valuers, also compares the change in the fair value of the property with relevant external sources to determine whether the change is reasonable.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment (continued)

When the land and building 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 within insurance contract liabilities 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 shorter 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 to the residual values 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 depreciated over the remaining useful lives following the date of the latest valuation)
Furniture, fittings and equipment	- 10% to 20%
Motor vehicles	- 20%
Renovations	- 10%

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 of property and equipment. 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(i)(ii) on impairment of non-financial assets.

On disposal of property and equipment, the difference between net proceeds and the carrying amount is recognised in 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 profit or loss during the financial year in which they are incurred.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Intangible assets****(i) Exclusive right**

The exclusive right arises from the 10-year exclusive bancassurance agreement entered into between the Company with Alliance Bank Malaysia Berhad ("ABMB"). The exclusive right is amortised over the duration of the agreement and the annual amortisation amount is calculated with reference to the benefits generated from the partnership (which is defined as the annualized premium equivalent) in which the Company expects to recognise the related revenue.

(ii) Computer software

Cost of software rights acquired or developed is amortised on a straight-line basis over a period of four years.

Computer software in progress is not amortised until the asset is ready for its intended use.

At each reporting date, the Company assesses whether there is any indication of impairment of its intangible assets. 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(i)(ii) on impairment of non-financial assets.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(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, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) 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 profit or loss.

Derivative financial instruments held by the Company are forward foreign exchange contracts to hedge its currency risks. Any fair value gains on these derivative financial instruments are recognised as financial assets.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

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 any allowance for impairment losses. Gains and losses are recognised in 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 any allowance for impairment losses. Gains and losses are recognised in 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.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Fair value gains and losses of these investments are recognised in other comprehensive income.

On derecognition or impairment, the cumulative fair value gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as net realised gains on financial assets.

(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.

On derecognition of financial asset in its entirety, the difference between the carrying amount and the sum of consideration received or receivable and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****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) Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category at inception.

Derivative financial instruments held by the Company are forward foreign exchange contracts to hedge its currency risks. Any fair value losses on these derivative financial instruments are recognised as financial liabilities.

Other financial liabilities are measured at amortised cost using the effective interest method with gains and losses recognised in profit or loss when the instruments are derecognised as well as through the amortisation process.

(g) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(h) Investment property**

Investment property comprises land and building 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 property is initially stated at cost including related and incidental expenditure incurred, and is 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 valuer. 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 property are materially different from the market value. Professional and qualified external valuer is engaged to perform the formal valuation. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the external valuer, which valuation techniques and inputs to use. The valuation result is presented to the Board of Directors for approval prior to the adoption of the valuation report.

The Company analyses the movements in the values of the property on an annual basis. Desktop valuation is performed by the Company in the interim period to obtain an indicative fair value of the property. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to the valuation report and other relevant documents. The Company, in conjunction with the external valuer, also compares the change in the fair value of the property with relevant external sources to determine whether the change is reasonable.

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

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

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

(i) Impairment of assets**(i) Financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(i) Financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the financial 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 financial asset is reduced and the impairment loss is recorded in the profit or loss.

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 losses 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 financial assets are not recognised in the profit or loss. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. Reversal of impairment losses on debt instruments classified as AFS financial assets 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.

(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 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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits

(i) Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, social security contributions 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 makes 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. Actuarial investigation is carried out periodically to assess the financial condition of the Scheme.

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.

(iii) Share-based compensation

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-based 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 reviews 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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Employee benefits (continued)****(iii) Share-based compensation (continued)****(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 reviews 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.

(k) Foreign currencies**(i) Functional and Presentation currency**

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.

(ii) Transactions and balances

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 statement of profit or loss.

(iii) Operations denominated in functional currency other than Ringgit Malaysia

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; and
- (2) Income and expenses for the profit or loss are translated at the 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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) 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 purposes of MFRS 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.

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 expired. 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.

Contracts in the Participating life funds are classified as insurance contracts with DPF and contracts in the Non-participating life funds 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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) 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.

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.

(n) Life insurance underwriting results**(i) 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.

(ii) Reinsurance premiums

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

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(n) Life insurance underwriting results (continued)****(iii) 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.

(iv) Benefits, claims and expenses

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:

- (1) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- (2) 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.

(o) 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(i)(i) on impairment.

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

(p) 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 amounts are recovered principally through a sale transaction rather than through continuing use.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(q) 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.

(r) 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.

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.

(s) 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 loans and receivables is recognised using the original effective interest rate.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(s) Other revenue recognition (continued)**

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 property is recognised on a straight line basis over the term of the lease.

Realised gains and losses recorded in the profit or loss on investments include gains and losses on financial assets and investment property. 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.

Fee income is recognised when the services are provided.

(t) 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 shareholder.

(u) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses 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 discloses their existence where inflows of economic benefits are probable, but not virtually certain.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Insurance contract liabilities

(i) Actuarial liabilities

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, Non-participating annuity 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.

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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Insurance contract liabilities (continued)

(ii) Unallocated surplus

Surpluses of contracts under the Participating life funds are attributable to policyholders and shareholder and the amount and timing of distribution to both the policyholders and shareholder 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 provisions of the Financial Services Act 2013 and policy documents issued by BNM.

Unallocated surplus of Participating life funds, where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholder by the end of the financial year, are held within the insurance contract liabilities.

Unallocated surplus for Non-participating funds is recognised as equity, as the policyholders do not have any rights over this unallocated surplus. The shareholder will ultimately have the rights over this unallocated surplus upon the recommendation of distribution by the Appointed Actuary. Hence, the unallocated surplus represents the residual interest of the shareholder in the assets of the Non-participating fund after deducting all its liabilities and it is recognised as equity accordingly.

(iii) Fair value reserve

Fair value gains and losses on AFS financial assets of Participating life fund are initially recognised in other comprehensive income. Subsequently, an equivalent amount of adjustment to the insurance contract liabilities is recognised.

(iv) Asset revaluation reserve

Revaluation surplus and deficit of freehold property of the Participating life fund are initially recognised in other comprehensive income. Subsequently, an equivalent amount of adjustment to the insurance contract liabilities is recognised.

(v) Net asset value attributable to unit holders

The unit liability of Investment-linked policies 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.

(w) Fair value measurement

Fair value of an asset or liability is measured at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation techniques and categories of fair values of assets and liabilities are further described in note 4, note 5, note 32(b) and note 32(c).

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Company's accounting policies, the Company establishes 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 estimate 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.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are as follows:-

- (i) Valuation of freehold property and investment property – note 4 and note 5
- (ii) Impairment of financial assets – note 2(i)(i)
- (iii) Impairment of intangible assets – note 2(i)(ii)

Other than the above, the estimates, assumptions and judgements that have 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, surrender rates (including lapses, Investment-linked premium persistency and partial withdrawal), policyholders' bonuses/dividends and discount rates are used for calculating the liabilities during the life of the contract. Such assumptions require a significant amount of professional judgement 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.

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 life fund (except for universal life Non-participating policy), Non-participating annuity fund, Investment-linked operating fund and the guaranteed benefits liabilities of the Participating life funds under the "Risk-Based Capital Framework for Insurers" are described below:-

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

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

Zero coupon spot yields as at current financial year end are obtained from Bond Pricing Agency Malaysia Sdn Bhd. (a bond pricing agency approved by BNM) and used for the valuation of guaranteed liabilities for all products, except for the US dollar denominated variable annuity ("VA") which used the corresponding US treasury yield as the valuation interest rate.

For the valuation of total benefits liabilities of the Participating life funds and universal life Non-participating policy, a suitable discount rate based on the historical yield and future investment outlook of the respective fund is used.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Valuation of actuarial liabilities (continued)

Interest rate (continued)

The table below shows the valuation discounting forward yields for all the respective life funds, after taking into consideration the applicable adjustment on investment expense and investment income tax.

Calendar Year	Resultant Valuation Discounting Yields				
	Ordinary Par	Annuity Par	Non-Par + IL	Universal Life	IL SIP (VA)
2017	5.10%	3.24%	3.24%	4.52%	0.85%
2018	5.21%	3.72%	3.72%	4.56%	1.57%
2019	5.31%	3.69%	3.69%	4.59%	2.14%
2020	5.41%	3.75%	3.75%	4.62%	2.48%
2021	5.51%	4.00%	4.00%	4.65%	2.81%
2022	5.61%	5.49%	5.49%	4.69%	2.99%
2023	5.71%	5.46%	5.46%	4.72%	3.05%
2024	5.81%	4.11%	4.11%	4.75%	3.15%
2025	5.91%	4.54%	4.54%	4.79%	3.19%
2026	6.01%	4.62%	4.62%	4.82%	3.17%
2027	6.11%	5.59%	5.59%	4.85%	3.00%
2028	6.11%	5.83%	5.83%	4.85%	3.09%
2029	6.11%	6.20%	6.20%	4.85%	3.17%
2030	6.11%	6.61%	6.61%	4.85%	3.26%
2031	6.11%	5.67%	5.67%	4.85%	3.34%
2032	6.11%	4.83%	4.83%	4.85%	2.75%
2033+	6.11%	4.83%	4.83%	4.85%	2.75%

Mortality, morbidity, critical illness, expenses and surrenders (including lapses, Investment-linked premium persistency and partial withdrawal)

The Company based its mortality and morbidity assumptions on 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 with appropriate expected expense inflation adjustments.

Assumptions on surrenders (including lapses, Investment-linked premium persistency and partial withdrawal) are derived from the Company's historical experience.

All assumptions are monitored through regular experience studies to ensure relevance and appropriateness.

For the Non-participating life fund, Non-participating annuity fund, Investment-linked operating fund and the guaranteed benefits liabilities of the Participating life funds, provision of risk for adverse deviation ("PRAD") assumptions are added to the best estimate assumptions.

For the valuation of total benefit liabilities of the Participating life funds, the best estimates assumptions are used.

Participating Policyholders' Bonuses/Dividends

Continuance of current bonus level is assumed in the best estimate valuation.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

4. PROPERTY AND EQUIPMENT

	Note	Building RM'000	Work in progress RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
Cost/valuation							
At 1 January 2015		10,248	2,033	16,772	376	2,698	32,127
Additions		-	1,129	259	-	-	1,388
Disposal		-	-	-	(143)	-	(143)
Transfer to building		473	(473)	-	-	-	-
Transfer to investment property	5	-	(1,852)	-	-	-	(1,852)
Transfer from holding company		-	1,145	-	-	-	1,145
Transfer from related company		-	-	149	-	-	149
Write off	24	-	-	(16)	-	(40)	(56)
Revaluation adjustment	13	(391)	-	-	-	-	(391)
At 31 December 2015/1 January 2016		10,330	1,982	17,164	233	2,658	32,367
Additions		41	73	665	210	14	1,003
Transfer to furniture, fittings and equipment		-	(470)	470	-	-	-
Transfer to intangible assets	6	-	(1,283)	-	-	-	(1,283)
Transfer from holding company		-	-	161	-	-	161
Transfer to related company		-	(46)	-	-	-	(46)
Write off	24	-	(115)	(47)	-	-	(162)
Revaluation adjustment	13	(50)	-	-	-	-	(50)
At 31 December 2016		10,321	141	18,413	443	2,672	31,990
<u>Comprising assets stated at 31 December 2016:</u>							
Valuation		10,321	-	-	-	-	10,321
Cost		-	141	18,413	443	2,672	21,669
		10,321	141	18,413	443	2,672	31,990

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

4. PROPERTY AND EQUIPMENT (CONTINUED)

	Note	Building RM'000	Work in progress RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
<u>Comprising assets stated at 31 December 2015:</u>							
Valuation		10,330	-	-	-	-	10,330
Cost		-	1,982	17,164	233	2,658	22,037
		<u>10,330</u>	<u>1,982</u>	<u>17,164</u>	<u>233</u>	<u>2,658</u>	<u>32,367</u>
Accumulated depreciation							
At 1 January 2015		273	-	11,148	103	22	11,546
Charge for the financial year	24	319	-	1,128	23	239	1,709
Disposal		-	-	-	(93)	-	(93)
Transfer from related company		-	-	58	-	-	58
Write off	24	-	-	(11)	-	(40)	(51)
Reversal on revaluation	13	(592)	-	-	-	-	(592)
At 31 December 2015/1 January 2016		-	-	12,323	33	221	12,577
Charge for the financial year	24	324	-	1,120	59	334	1,837
Transfer from holding company		-	-	24	-	-	24
Write off	24	-	-	(40)	-	-	(40)
Reversal on revaluation	13	(324)	-	-	-	-	(324)
At 31 December 2016		<u>-</u>	<u>-</u>	<u>13,427</u>	<u>92</u>	<u>555</u>	<u>14,074</u>
Net carrying amount							
At 31 December 2016		<u>10,321</u>	<u>141</u>	<u>4,986</u>	<u>351</u>	<u>2,117</u>	<u>17,916</u>
At 31 December 2015		<u>10,330</u>	<u>1,982</u>	<u>4,841</u>	<u>200</u>	<u>2,437</u>	<u>19,790</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

4. PROPERTY AND EQUIPMENT (CONTINUED)

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

	2016 RM'000	2015 RM'000
Building	<u>6,536</u>	<u>6,692</u>

The Company has carried out a valuation on the freehold property based on the income method conducted by an independent qualified valuer, Chee Kok Thim, FRISM, MRICS, MPEPS, MIPPM, Chartered Valuation Surveyor, Registered Valuer (V325) of Rahim & Co International Sdn Bhd as disclosed below. The valuation of the freehold property was adopted for the financial year ended 31 December 2016. The recognised revalued amount was based on the valuation exercise performed as at 4 November 2016.

Under the income method, the market value of the property 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 the freehold property is classified within Level 3 of the fair value hierarchy. The fair value of the property is as follows:

	2016 RM'000	2015 RM'000
Fair value as stated in valuation report	<u>10,321</u>	<u>10,330</u>

The reconciliation from beginning to ending balances for the freehold property is as disclosed on page 59 and page 60.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
4. PROPERTY AND EQUIPMENT (CONTINUED)

Description of valuation techniques used and significant unobservable inputs to valuation of the freehold property are as set out below:

	Valuation technique	Significant unobservable inputs	Range
2016			
Freehold property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.40 - RM5.03 psf
		Average rental for reversionary period	RM4.60 psf
2015			
Freehold property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.29 - RM4.80 psf
		Average rental for reversionary period	RM4.60 psf

A 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 freehold property.

5. INVESTMENT PROPERTY

	Note	2016 RM'000	2015 RM'000
At 1 January		51,320	49,177
Additions		164	-
Transfer from property and equipment	4	-	1,852
Fair value (loss)/gain	22	(571)	291
At 31 December		<u>50,913</u>	<u>51,320</u>
Represented by:			
Freehold property		<u>50,913</u>	<u>51,320</u>

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

	2016 RM'000	2015 RM'000
Rental income (note 20)	4,510	4,141
Direct operating expenses arising from investment property that generate rental income	(1,564)	(1,431)
Direct operating expenses arising from investment property that did not generate rental income	<u>(322)</u>	<u>(322)</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

5. INVESTMENT PROPERTY (CONTINUED)

The Company has carried out a valuation on the investment property based on the income method conducted by an independent qualified valuer, Chee Kok Thim, FRISM, MRICS, MPEPS, MIPPM, Chartered Valuation Surveyor, Registered Valuer (V325) of Rahim & Co International Sdn Bhd as disclosed below. The valuation of the investment property was adopted for the financial year ended 31 December 2016. The recognised revalued amount was based on the valuation exercise performed as at 4 November 2016.

The fair value of the investment property is categorised under Level 3 of the fair value hierarchy and the description of valuation techniques used and significant unobservable inputs to valuation of the investment property are as set out below:

	Valuation technique	Significant unobservable inputs	Range
2016			
Investment property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.40 - RM5.03 psf
		Average rental for reversionary period	RM4.60 psf
2015			
Investment property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.29 - RM4.80 psf
		Average rental for reversionary period	RM4.60 psf

A 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 investment property.

The reconciliation from beginning to ending balances for investment property is as disclosed on page 62.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
6. INTANGIBLE ASSETS

	Note	Exclusive right RM'000	Computer software RM'000	Computer software in progress RM'000	Total RM'000
Cost					
At 1 January 2015		40,000	2,068	-	42,068
Additions		-	137	-	137
At 31 December 2015/1 January 2016		40,000	2,205	-	42,205
Additions		-	920	2,464	3,384
Transfer from property and equipment	4	-	1,162	121	1,283
Transfer from holding company		-	144	-	144
At 31 December 2016		40,000	4,431	2,585	47,016
Accumulated amortisation					
At 1 January 2015		4,878	990	-	5,868
Amortisation during the financial year	24	5,322	295	-	5,617
At 31 December 2015/1 January 2016		10,200	1,285	-	11,485
Amortisation during the financial year	24	6,254	632	-	6,886
Transfer from holding company		-	143	-	143
At 31 December 2016		16,454	2,060	-	18,514
Net carrying amount					
At 31 December 2016		23,546	2,371	2,585	28,502
At 31 December 2015		29,800	920	-	30,720

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 in accordance with note 2(c)(i).

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

7. LOANS AND RECEIVABLES

		2016 RM'000	2015 RM'000
Loans receivable:			
Policy loans		171,105	197,670
Mortgage loans		2,108	2,218
Staff loans		1,103	951
		<u>174,316</u>	<u>200,839</u>
Allowance for impairment loss		(328)	(181)
	(i)	<u>173,988</u>	<u>200,658</u>
Fixed and call deposits with licensed banks in Malaysia		97,395	164,767
Accrued interest		76	62
	(ii)	<u>97,471</u>	<u>164,829</u>
Other receivables:			
Amount due from immediate holding company	(iii)	1,548	-
Amount due from related companies	(iii)	1,898	10,511
Accrued dividend income		1,710	1,635
Accrued rental income		118	467
Deposits		640	651
Other debtors		<u>23,289</u>	<u>19,141</u>
		29,203	32,405
Allowance for impairment loss		(287)	(278)
	(iv)	<u>28,916</u>	<u>32,127</u>
Prepayments		<u>1,047</u>	<u>1,749</u>
Total		<u>301,422</u>	<u>399,363</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

7. LOANS AND RECEIVABLES (CONTINUED)

	2016	2015
	RM'000	RM'000
(i) Loans receivable:		
Receivable within 12 months	440	409
Receivable after 12 months	173,548	200,249
	<u>173,988</u>	<u>200,658</u>
(ii) Fixed and call deposits with licensed banks in Malaysia:		
Receivable within 12 months	97,471	164,829
Receivable after 12 months	-	-
	<u>97,471</u>	<u>164,829</u>
(iii) The amounts due from immediate holding company/related companies are unsecured, trade related, interest free and repayable on demand.		
(iv) Other receivables:		
Receivable within 12 months	28,526	31,737
Receivable after 12 months	390	390
	<u>28,916</u>	<u>32,127</u>

The carrying amounts of other receivables and fixed and call deposits approximate fair values due to the relatively short term maturity of these balances. The carrying amount of loans receivable approximates fair value due to the insignificant impact of discounting.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

8. FINANCIAL ASSETS

(a) Available-for-sale

	2016 RM'000	2015 RM'000
Equity securities		
- Quoted in Malaysia	745,806	720,187
- Unquoted	1,944	1,944
Real estate investment trusts		
- Quoted in Malaysia	10,941	3,056
Unit trust funds*	166,312	206,179
Malaysian Government Securities	577,083	568,059
Government Investment Issues	196,571	186,402
Corporate debt securities		
- Unquoted	1,160,439	1,017,862
Accrued interest	18,522	17,507
	<u>2,877,618</u>	<u>2,721,196</u>
Current	1,004,464	1,013,644
Non-current	<u>1,873,154</u>	<u>1,707,552</u>
	<u>2,877,618</u>	<u>2,721,196</u>

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

	2016 RM'000	2015 RM'000
Equity securities		
- Quoted in Malaysia	394,515	377,602
- Quoted outside Malaysia	5,209	4,890
Real estate investment trusts		
- Quoted in Malaysia	7,623	-
Unit trust funds*	7,166	2,674
Malaysian Government Securities	77,589	67,339
Government Investment Issues	27,381	14,198
Corporate debt securities		
- Unquoted	206,038	191,743
Mutual funds		
- Quoted outside Malaysia	607,312	481,863
Forward foreign exchange contract (note 15)	-	1,113
Accrued interest	2,880	2,569
	<u>1,335,713</u>	<u>1,143,991</u>
Current	1,112,806	961,428
Non-current	<u>222,907</u>	<u>182,563</u>
	<u>1,335,713</u>	<u>1,143,991</u>

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

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

8. FINANCIAL ASSETS (CONTINUED)

(c) Carrying value of financial assets

The financial assets and its movements are further analysed as follows:-

	Available- for-sale RM'000	Fair value through profit or loss RM'000	Total RM'000
At 1 January 2015	2,617,360	950,579	3,567,939
Purchases	1,202,535	969,792	2,172,327
Maturities	(80,426)	(12,374)	(92,800)
Disposals	(981,110)	(811,637)	(1,792,747)
Fair value losses recorded in:			
Profit or loss (note 22)	-	(12,999)	(12,999)
Other comprehensive income	(2,174)	-	(2,174)
Allowance for impairment losses (note 22)	(36,934)	-	(36,934)
Net accretion of discounts/ (amortisation of premiums) (note 20)	583	(62)	521
Unrealised exchange gains	-	60,535	60,535
Movement in accrued interest	1,362	157	1,519
At 31 December 2015/1 January 2016	2,721,196	1,143,991	3,865,187
Purchases	1,552,660	746,831	2,299,491
Maturities	(53,924)	(8,253)	(62,177)
Disposals	(1,302,766)	(511,211)	(1,813,977)
Fair value losses recorded in:			
Profit or loss (note 22)	-	(37,495)	(37,495)
Other comprehensive income	(14,250)	-	(14,250)
Allowance for impairment losses (note 22)	(26,533)	-	(26,533)
Net accretion of discounts/ (amortisation of premiums) (note 20)	220	(499)	(279)
Unrealised exchange gains	-	2,038	2,038
Movement in accrued interest	1,015	311	1,326
At 31 December 2016	<u>2,877,618</u>	<u>1,335,713</u>	<u>4,213,331</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

9. REINSURANCE ASSETS

	2016 RM'000	2015 RM'000
Reinsurance assets on:		
- Insurance contract liabilities	4,485	2,758
- Insurance claims liabilities	4,126	1,803
	<u>8,611</u>	<u>4,561</u>

10. INSURANCE RECEIVABLES

	2016 RM'000	2015 RM'000
Due premiums including agents' balances	23,075	22,252
Due from reinsurers	6,772	5,153
	<u>29,847</u>	<u>27,405</u>
Allowance for impairment loss	(1,066)	(1,228)
	<u>28,781</u>	<u>26,177</u>
Receivable within 12 months	<u>28,781</u>	<u>26,177</u>

Amount due from reinsurers that have been offset against amount due to reinsurers are as follows:

	Gross carrying amount RM'000	Gross amount offset RM'000	Net amount reported RM'000
31 December 2016			
Commissions receivables	9,932	-	9,932
Claims recoveries	1,398	-	1,398
Premiums ceded	-	(4,558)	(4,558)
	<u>11,330</u>	<u>(4,558)</u>	<u>6,772</u>
31 December 2015			
Commissions receivables	6,567	-	6,567
Claims recoveries	2,188	-	2,188
Premiums ceded	-	(3,602)	(3,602)
	<u>8,755</u>	<u>(3,602)</u>	<u>5,153</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

11. SHARE CAPITAL

	2016		2015	
	Number of shares	Nominal value	Number of shares	Nominal Value
	'000	RM'000	'000	RM'000
<u>Authorised:</u>				
Ordinary shares of 50 sen each:				
At 1 January/31 December	1,000,000	500,000	1,000,000	500,000
<u>Issued and fully paid up:</u>				
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.

12. RESERVES

	Note	2016 RM'000	2015 RM'000
Non-distributable:			
Fair value reserve, held by:			
Non-participating life fund		3,673	8,833
Shareholder's fund		(753)	806
	(i)	2,920	9,639
Retained earnings	(ii)	69,414	71,155
Distributable:			
Retained earnings	(iii)	277,499	220,315
		349,833	301,109

- (i) Fair value reserve is in respect of fair value gains or losses on available-for-sale financial assets, net of deferred tax.
- (ii) Non-distributable retained earnings are surplus arising from Non-participating life fund, net of deferred tax. These amounts are only distributable upon actual recommended transfer from the Non-participating (including Investment-linked operating fund) life fund to the Shareholder's fund by the Appointed Actuary.
- (iii) Under the single tier system, the Company is able to frank the payment of dividends out of its entire distributable retained earnings as at the date of the statement of financial position, subject to the approval by Bank Negara Malaysia under section 51 of the Financial Services Act 2013.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

13. INSURANCE CONTRACT LIABILITIES

	Gross		Net	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Actuarial liabilities	2,282,558	2,163,399	2,278,073	2,160,641
Unallocated surplus	63,402	162,694	63,402	162,694
Fair value reserve	46,776	53,081	46,776	53,081
Asset revaluation reserve	1,116	842	1,116	842
Investment-linked policyholders' account	1,197,495	1,025,290	1,197,495	1,025,290
	<u>3,591,347</u>	<u>3,405,306</u>	<u>3,586,862</u>	<u>3,402,548</u>
Current	1,325,727	1,294,268	1,325,596	1,294,268
Non-current	<u>2,265,620</u>	<u>2,111,038</u>	<u>2,261,266</u>	<u>2,108,280</u>
	<u>3,591,347</u>	<u>3,405,306</u>	<u>3,586,862</u>	<u>3,402,548</u>

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

	Gross		Net	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
At 1 January	3,405,306	3,272,101	3,402,548	3,271,070
Inforce reserve movement	28,541	(19,680)	27,338	(19,680)
New business reserve	26,426	23,466	25,902	21,739
Discount rate and other changes	64,192	25,897	64,192	25,897
Unallocated surplus	(99,292)	(61,160)	(99,292)	(61,160)
Fair value reserve, net of tax	(6,305)	(6)	(6,305)	(6)
Asset revaluation reserve				
- Revaluation adjustment (note 4)	(50)	(391)	(50)	(391)
- Reversal of accumulated depreciation on revaluation (note 4)	324	592	324	592
	<u>274</u>	<u>201</u>	<u>274</u>	<u>201</u>
Investment-linked policyholders' account	172,205	164,487	172,205	164,487
At 31 December	<u>3,591,347</u>	<u>3,405,306</u>	<u>3,586,862</u>	<u>3,402,548</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 year ended 31 December 2016, the applicable assumption changes resulted in higher actuarial liabilities of RM64.2 million (2015: higher actuarial liabilities of RM25.9 million), with a corresponding decrease in unallocated surplus for the participating business of RM62.3 million (2015: decrease in unallocated surplus of RM28.5 million) and decrease in net profit before tax of RM1.9 million (2015: increase in net profit before tax of RM2.6 million).

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

14. INSURANCE CLAIMS LIABILITIES

	Gross		Net	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	55,764	51,635	51,638	49,832
Current	55,764	51,635	51,638	49,832

15. FINANCIAL (LIABILITY)/ASSET 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. Derivative financial instruments are recognised as financial asset or financial liability in accordance with the policy described in note 2(d)(i)(1) and note 2(f).

	Notional amount	Fair value (loss)/gain recognised as		Net carrying amount
		Financial asset	Financial liability	
	RM'000	RM'000	RM'000	RM'000
31 December 2016				
Hedging derivative:				
Forward foreign exchange contract	386,222	-	(549)	(549)
31 December 2015				
Hedging derivative:				
Forward foreign exchange contract (note 8(b))	256,256	1,113	-	1,113

16. 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.

	2016	2015
	RM'000	RM'000
Deferred tax liabilities	25,907	32,029
Current	3,362	8,337
Non-current	22,545	23,692
	25,907	32,029

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

16. DEFERRED TAX LIABILITIES (CONTINUED)

	Unallocated surplus RM'000	Revaluation- investment property RM'000	Accelerated depreciation RM'000	Revaluation- investments RM'000	Others RM'000	Total RM'000
At 1 January 2015	23,906	510	95	9,065	-	33,576
Recognised in:						
Profit or loss:						
- Other operating (income)/ expenses (note 26)	-	23	(87)	384	-	320
- Taxation (note 27)	(1,436)	-	-	(117)	-	(1,553)
Other comprehensive loss						
- Fair value reserve	-	-	-	(314)	-	(314)
At 31 December 2015/1 January 2016	22,470	533	8	9,018	-	32,029
Recognised in:						
Profit or loss:						
- Other operating (income)/ expenses (note 26)	-	(384)	69	(3,922)	(29)	(4,266)
- Taxation (note 27)	(550)	-	-	(80)	-	(630)
Other comprehensive loss						
- Fair value reserve	-	-	-	(1,226)	-	(1,226)
At 31 December 2016	21,920	149	77	3,790	(29)	25,907

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

17. INSURANCE PAYABLES

	2016 RM'000	2015 RM'000
Due to reinsurers	2,383	1,073
Due to agents	6,136	6,036
Due to insureds	470,775	425,319
	<u>479,294</u>	<u>432,428</u>
Current	<u>479,294</u>	<u>432,428</u>

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

Amount due to reinsurers that have been offset against amount due from reinsurers are as follows:

	Gross carrying amount RM'000	Gross amount offset RM'000	Net amount reported RM'000
31 December 2016			
Premiums ceded	3,518	-	3,518
Commissions receivables	-	(270)	(270)
Claims recoveries	-	(865)	(865)
	<u>3,518</u>	<u>(1,135)</u>	<u>2,383</u>
31 December 2015			
Premiums ceded	1,481	-	1,481
Commissions receivables	-	(327)	(327)
Claims recoveries	-	(81)	(81)
	<u>1,481</u>	<u>(408)</u>	<u>1,073</u>

18. OTHER PAYABLES

	2016 RM'000	2015 RM'000
Other creditors	44,241	60,284
Accrued liabilities	36,472	27,752
Amount due to immediate holding company	-	1,425
Amount due to related companies	2,022	582
	<u>82,735</u>	<u>90,043</u>

The amounts due to immediate holding company and related companies are unsecured, trade related, 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.

19. NET PREMIUMS

	2016 RM'000	2015 RM'000
First year premium	123,846	98,494
Renewal year premium	513,550	480,370
Single premium	213,224	219,209
	<u>850,620</u>	<u>798,073</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

20. INVESTMENT INCOME

	2016 RM'000	2015 RM'000
Financial assets at FVTPL - designated upon initial recognition		
Interest/profit sharing income	13,747	12,479
Dividend income		
- equity securities - quoted in Malaysia	11,967	9,996
- equity securities - quoted outside Malaysia	124	110
- real estate investment trusts - quoted in Malaysia	137	-
- unit trusts	-	7
- mutual funds - outside Malaysia	7,780	6,497
Net amortisation of premiums (note 8(c))	(499)	(62)
AFS financial assets		
Interest income	84,779	75,869
Dividend income		
- equity securities - quoted in Malaysia	22,540	21,127
- equity securities - unquoted in Malaysia	194	194
- real estate investment trusts - quoted in Malaysia	271	35
- unit trusts	4,900	10,233
Net accretion of discounts (note 8(c))	220	583
Loans and receivables		
Interest/profit income	15,128	17,325
Net accretion of discounts	484	2,678
Investment property		
Rental income (note 5)	4,510	4,141
Cash and cash equivalents		
Interest/profit sharing income	969	531
	<u>167,251</u>	<u>161,743</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

21. NET REALISED GAINS

	2016 RM'000	2015 RM'000
Property and equipment		
Realised losses	-	(14)
AFS financial assets		
Realised gains:		
Equity securities - quoted in Malaysia	9,257	19,641
Unit trust funds	5,427	654
Debt securities	2,955	2,427
Realised losses:		
Real estate investment trusts – quoted in Malaysia	(78)	-
Debt securities	(61)	-
Total net realised gains for AFS financial assets	17,500	22,722
Total net realised gains	17,500	22,708

22. NET FAIR VALUE LOSSES

	2016 RM'000	2015 RM'000
Investment property		
Unrealised fair value (loss)/gain (note 5)	(571)	291
Financial assets at FVTPL - designated upon initial recognition		
<u>Fair value gains</u>		
Realised	14,096	11,252
Unrealised (note 8(c))	44	1,812
<u>Fair value losses</u>		
Realised	(18,230)	(53,837)
Unrealised (note 8(c))	(37,539)	(14,811)
Net fair value losses on financial assets at FVTPL - designated upon initial recognition	(41,629)	(55,584)
AFS financial assets		
Impairment losses on quoted equities (note 8(c))	(26,533)	(36,934)
Total net fair value losses	(68,733)	(92,227)

23. FEE INCOME

Fee income comprises outsourcing fee income earned from related companies.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

24. MANAGEMENT EXPENSES

	2016 RM'000	2015 RM'000
Staff costs (note 24(a))	38,417	38,171
Directors' remuneration: (note 24(b))		
- Fees	235	139
- Other emoluments	3,403	1,705
Auditors' remuneration:		
- Statutory audit	404	358
- Audit related services	37	37
Office rental payable to:		
- Immediate holding company	818	809
- Others	1,007	1,360
Depreciation of property and equipment (note 4)	1,837	1,709
Amortisation of intangible assets (note 6)	6,886	5,617
Property and equipment written off (note 4)	122	5
Allowance for impairment loss on loans receivable	147	-
(Reversal of)/allowance for impairment loss on insurance receivables	(162)	154
Allowance for impairment loss on other receivables	9	278
Bancassurance service fee	3,000	3,000
Credit card charges	2,730	2,570
Fund management expenses	5,863	4,663
Goods and services tax	2,559	1,788
Information technology outsourcing expenses	6,387	6,708
Marketing and advertising expenses	16,551	14,496
Printing and stationery expenses	1,121	1,271
Postage and courier charges	1,139	992
Professional fee	736	630
Outsourcing fees	1,981	1,273
Other staff related expenses	3,009	3,142
Software maintenance	3,455	3,597
Training expenses	1,179	1,189
Travelling and entertainment expenses	2,263	1,825
Utilities and office maintenance expenses	1,553	1,572
Other expenses	4,209	3,533
	<u>110,895</u>	<u>102,591</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

24. MANAGEMENT EXPENSES (CONTINUED)

(a) Staff costs

		2016 RM'000	2015 RM'000
Staff costs		33,944	33,780
Retirement benefits contributions	(i)	4,187	4,272
Share-based payments	(ii)	286	119
Total staff costs		<u>38,417</u>	<u>38,171</u>

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

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

(b) Directors' remuneration

The aggregate amounts of emoluments received by directors of the Company during the financial year are detailed as follows:-

	Non-deferred		Deferred		Total	
	2016	2015	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Executive director/Chief Executive Officer ("CEO"):</u>						
Fixed remuneration						
• Salaries	1,632	1,133	-	-	1,632	1,133
• Contribution to defined contribution plan	102	71	-	-	102	71
• Benefits in kind	424	42	-	-	424	42
Variable Remuneration						
• Bonus	691	459	-	-	691	459
• RSU expenses	-	-	554	-	554	-
<u>Non-executive directors:</u>						
Fixed remuneration						
• Fees	235	139	-	-	235	139
	<u>3,084</u>	<u>1,844</u>	<u>554</u>	<u>-</u>	<u>3,638</u>	<u>1,844</u>
					2016	2015
					RM'000	RM'000
Represented by:						
Directors' fees					235	139
Directors' emoluments					2,979	1,663
Benefits in kind					424	42
					<u>3,638</u>	<u>1,844</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

24. MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration (continued)

The number of executive and non-executive directors whose total remuneration received during the financial year fall within the following bands are analysed as below:

	Number of directors	
	2016	2015
<u>Executive director/CEO:</u>		
RM3,000,001-RM3,500,000	1	-
RM1,500,000-RM2,000,000	-	1
	<hr/>	<hr/>
<u>Non-executive directors:</u>		
Below RM50,000	2	5
Above RM50,000	3	1
	<hr/>	<hr/>

(c) Directors fees (non-deferred fixed remuneration) received by the non-executive directors during the financial year are as follows:

	2016	2015
	RM'000	RM'000
Non-executive directors:		
Dato' Md Agil bin Mohd Natt	65	65
Datuk Seri Panglima Mohd Annuar Bin Zaini	55	11
Datuk Dr. Nik Norzrul Thani bin N Hassan Thani	-	20
Lim Hun Soon @ David Lim	57	21
Robert Allen Cook	-	7
Leung Rockson Lok-Shuen	44	15
Dr. Gopakumar Kurup	14	-
	<hr/>	<hr/>
	235	139

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

25. SHARE-BASED COMPENSATION

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

	2016 RM'000	2015 RM'000
RSU expenses	840	119
	840	119

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.

26. OTHER OPERATING (INCOME)/EXPENSES

	2016 RM'000	2015 RM'000
Foreign exchange		
- Realised gains	(32,031)	(15,289)
- Unrealised gains	(8,594)	(60,535)
Interest on agent's bond withheld	17	21
Others	527	332
Tax expense on investment income of Life fund and Investment-linked funds:		
- Current tax	12,879	9,405
- Deferred tax (note 16)	(4,266)	320
	8,613	9,725
	(31,468)	(65,746)

The income tax for the Life fund and Investment-linked funds of the insurance business is calculated based on the tax rate of 8% (2015: 8%) of the assessable investment income, net of allowable deductions for the financial year.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

27. TAXATION

	2016 RM'000	2015 RM'000
Current tax		
Current financial year	17,313	16,660
Over provision in prior financial years	(1,393)	(252)
	<u>15,920</u>	<u>16,408</u>
Deferred tax		
Current financial year (note 16)	(630)	(1,553)
	<u>15,290</u>	<u>14,855</u>

The current income tax for the Company is calculated based on the tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year.

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 below:

	2016 RM'000	2015 RM'000
Profit before taxation	<u>70,733</u>	<u>58,828</u>
Taxation at Malaysia statutory tax rate of 24% (2015: 25%)	16,976	14,707
Section 110B tax credit set off	(2,515)	(2,116)
Income not subject to tax	(715)	(766)
Expenses not deductible for tax purposes	2,937	4,158
Effect on changes in tax rate	-	(876)
	<u>16,683</u>	<u>15,107</u>
Over provision in prior financial years	(1,393)	(252)
Tax expense	<u>15,290</u>	<u>14,855</u>

28. BASIC AND DILUTED EARNINGS PER SHARE

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

	2016 RM'000	2015 RM'000
Profit attributable to ordinary equity holder (RM'000)	55,443	43,973
Number of shares in issue ('000)	300,000	300,000
Basic earnings per share (sen)	<u>18.48</u>	<u>14.66</u>

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 have not been presented.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

29. DIVIDEND PAID

No dividend payment is recommended for the financial year ended 31 December 2016 (2015: Nil).

30. ADJUSTMENTS FOR NON-CASH ITEMS

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

	2016 RM'000	2015 RM'000
Interest income	(114,623)	(106,204)
Dividend income	(47,913)	(48,199)
Rental income	(4,510)	(4,141)
Net accretion of discounts	(205)	(3,199)
Losses on disposal of property and equipment	-	14
Gains on disposal of AFS financial assets	(17,500)	(22,722)
Fair value losses/(gains) on investment property	571	(291)
Fair value losses on FVTPL financial assets	41,629	55,584
Impairment losses on AFS financial assets	26,533	36,934
Depreciation of property and equipment	1,837	1,709
Property and equipment written off	122	5
Amortisation of intangible assets	6,886	5,617
(Reversal)/allowance for impairment loss on insurance receivables	(162)	154
Allowance for impairment loss on loans receivable	147	-
Allowance for impairment loss on other receivables	9	278
Tax on investment income of Life fund and Investment-linked funds	8,613	9,725
Taxation	15,290	14,855
Realised exchange gains	(32,031)	(15,289)
Unrealised exchange gains	(8,594)	(60,535)
	<u>(123,901)</u>	<u>(135,705)</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

31. 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 relationships with its holding companies and subsidiaries of holding companies. The related parties of, and their relationship with the Company 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 Immediate holding company
Manulife Asset Management Services Berhad	Malaysia	Subsidiary of Immediate holding company
Manulife Technology and Services Sdn Bhd	Malaysia	Subsidiary of ultimate holding company
Manulife Asset Management (Hong Kong) Limited	Hong Kong	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 subsidiaries 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 directors and certain members of senior management of the Company. Total compensation paid to the Company's directors are disclosed in note 24.

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 its related parties are set out below:

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Significant related party transactions (continued)

	2016 RM'000	2015 RM'000
Expenses/(income)		
Intermediate holding company		
Reimbursement of software maintenance expenses	3,249	3,858
Reimbursement of personnel expenses	4,684	2,118
Subsidiaries of ultimate holding company		
Rental income	(778)	(769)
Information technology outsourcing expenses	2,115	3,691
Software development and maintenance service	3,369	-
Outsourcing fee for health service call centre and administrative service	295	764
Reimbursement of marketing expenses	(317)	-
Subsidiaries of the immediate holding company		
Rental income	(641)	(473)
Outsourcing fee income	(2,211)	(2,306)
Fund management expenses	9,139	6,875
Management fees and maintenance charges	99	99
Transfer of property and equipment, at net book value (note 4)	46	(91)
Immediate holding company		
Outsourcing fee income	(1,069)	(947)
Outsourcing fees	673	428
Rental income	(106)	-
Rental expenses	818	809
Transfer of property and equipment, at net book value (note 4)	(137)	(1,145)
Transfer of intangible assets, at net book value (note 5)	(1)	-

Key management personnel

Total compensation paid to the Company's key management personnel are as follows:

	2016 RM'000	2015 RM'000
Salaries, other short-term employee benefits and other directors' emoluments	10,473	7,852
Retirement benefits contribution (i)	823	524
RSU expenses (ii)	840	119
	12,136	8,495

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

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Significant related party balances

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

	2016 RM'000	2015 RM'000
Loans and receivables (note 7)		
- Amount due from immediate holding company	1,548	-
- Amount due from related companies	1,898	10,511
	<u>3,446</u>	<u>10,511</u>
Other payables (note 18)		
- Amount due to immediate holding company	-	1,425
- Amount due to related companies	2,022	582
	<u>2,022</u>	<u>2,007</u>

32. 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 RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2016					
Financial assets					
Loans and receivables	-	-	300,375	-	300,375
AFS financial assets	2,877,618	-	-	-	2,877,618
Financial assets at FVTPL	-	1,335,713	-	-	1,335,713
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>
Financial liabilities					
Financial liabilities at FVTPL	-	-	-	549	549
Insurance payables	-	-	-	479,294	479,294
Other payables	-	-	-	82,735	82,735
	<u>-</u>	<u>-</u>	<u>-</u>	<u>562,578</u>	<u>562,578</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

32. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2015					
Financial assets					
Loans and receivables	-	-	397,614	-	397,614
AFS financial assets	2,721,196	-	-	-	2,721,196
Financial assets at FVTPL	-	1,143,991	-	-	1,143,991
Insurance receivables	-	-	26,177	-	26,177
Cash and cash equivalents	-	-	64,578	-	64,578
	<u>2,721,196</u>	<u>1,143,991</u>	<u>488,369</u>	<u>-</u>	<u>4,353,556</u>
Financial liabilities					
Insurance payables	-	-	-	432,428	432,428
Other payables	-	-	-	90,043	90,043
	<u>-</u>	<u>-</u>	<u>-</u>	<u>522,471</u>	<u>522,471</u>

(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 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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****32. FINANCIAL INSTRUMENTS (CONTINUED)****(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.

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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

The following table presents the Company's financial assets/liabilities that are carried at fair value as at 31 December 2016 and 31 December 2015.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
31 December 2016			
AFS financial assets			
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>
Financial assets at FVPTL			
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>
Financial liabilities at FVPTL			
Forward foreign exchange contract	549	-	549

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
31 December 2015			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	720,187	720,187	-
Real estate investment trusts			
- Quoted in Malaysia	3,056	3,056	-
Unit trust funds	206,179	206,179	-
Malaysian Government Securities	568,059	-	568,059
Government Investment Issues	186,402	-	186,402
Corporate debt securities			
- Unquoted	1,017,862	-	1,017,862
Accrued interest	17,507	-	17,507
	<u>2,719,252</u>	<u>929,422</u>	<u>1,789,830</u>
Financial assets at FVPTL			
Equity securities			
- Quoted in Malaysia	377,602	377,602	-
- Quoted outside Malaysia	4,890	4,890	-
Unit trust funds	2,674	2,674	-
Malaysian Government Securities	67,339	-	67,339
Government Investment Issues	14,198	-	14,198
Corporate debt securities			
- Unquoted	191,743	-	191,743
Mutual funds			
- Quoted outside Malaysia	481,863	481,863	-
Forward foreign exchange contract	1,113	-	1,113
Accrued interest	2,569	-	2,569
	<u>1,143,991</u>	<u>867,029</u>	<u>276,962</u>
	<u>3,863,243</u>	<u>1,796,451</u>	<u>2,066,792</u>

Unquoted equity securities of RM1,944,444 (31 December 2015: RM1,944,444) of the Company as disclosed in note 8(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 years.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****33. RISK MANAGEMENT****(a) Risk management framework**

The Board of Directors (the "Board") of the Company has oversight responsibility for risk management. Industry best practices and governance standards for financial institutions require the Board to establish risk management policies and practices and, in delegating this responsibility to management, to ensure that these policies and practices remain adequate, comprehensive and prudent in light of changing circumstances.

The Board, through the immediate holding company's Group Audit Committee and Group Risk Management Committee ("GRMC"), is responsible for overseeing the Company's management of its principal risks. The Board and GRMC delegate accountability for risk taking and risk management to the Chief Executive Officer ("CEO"). The CEO, supported by the Risk Officer and Enterprise Risk Management Committee, established risk policies, guide risk-taking activity, monitor material risk exposures, and develop strategic risk management priorities, thereby continuously shaping and promoting the risk management culture throughout the Company.

Risk management policies and practices form an integral part of the Board and Senior Management's oversight of risks and the Company's financial position. Accordingly, along with capital management and financial management, risk management is one of the three pillars of the Company's prudential framework. As such, the Company's risk policies and practices must be directly aligned with the Company's capital management and financial management frameworks. The amount of risk the Company assumes, and plans to assume, defines its required consolidated risk-based capital. Conversely, the amount of available capital defines the amount of risk it is prudent to assume. This relationship dictates the need for alignment between capital and risk management.

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, with the ultimate objective of increasing shareholder's value. 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, and monitoring and reporting on principal risks under taken; and
- Proactively executing effective risk controls and mitigation programs.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(b) Regulatory framework

The Company is required to comply with the Financial Services Act 2013 (Act 758) as well as guidelines and circulars issued by BNM.

(c) Capital management

The Capital Management Plan is developed and endorsed by the Board. The plan lays out the management actions in response to various Capital Adequacy Ratio (CAR) scenarios. 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 shareholder's value.

The Company's internal target solvency range is above the minimum regulatory capital requirement outlined under Risk-Based Capital Framework ("the Framework") prescribed by BNM at 130%.

The Company has fully complied with its internal target solvency range during the reported financial years.

The capital structure of the Company as at 31 December 2016 and 31 December 2015, as prescribed under the Framework are as follows:

	2016 RM'000	2015 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	150,000	150,000
Retained earnings of the Company*	277,499	220,315
Eligible contract liabilities	688,334	785,527
	<u>1,115,833</u>	<u>1,155,842</u>
Eligible Tier 2 Capital		
Eligible reserves	50,813	64,778
Amounts deducted from capital	(29,088)	(31,180)
Total Capital Available	<u>1,137,558</u>	<u>1,189,440</u>

* Only distributable retained earnings (Note 12) of the Company are included in the determination of Total Capital Available.

(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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

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

The Company also limits its exposure to loss within the insurance operations through participation in reinsurance arrangements. For insurance contracts issued in 2016, the Company generally retains a maximum of RM300,000 for mortality risk per life for non-credit related products, RM50,000 for mortality risk per life for credit related products, RM300,000 for accelerated critical illness risk per life and RM200,000 for additional critical illness per life, with the excess being reinsured through surplus treaties, coinsurance treaties and facultative reinsurance treaties. The Company is neither dependent on a single reinsurer at this moment nor are the operations of the Company 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	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Whole life	863,740	786,685	863,740	786,685
Endowment	505,323	433,827	505,323	433,827
Term	50,765	40,210	46,280	37,451
Annuity	187,473	179,150	187,473	179,150
Others	675,257	723,527	675,257	723,528
	<u>2,282,558</u>	<u>2,163,399</u>	<u>2,278,073</u>	<u>2,160,641</u>

Sensitivities

The analysis below is performed on plausible movements in key assumptions (with all other assumptions held constant) with resulting impact on gross and net actuarial liabilities, profit before tax and equity. The correlation of assumptions may have a significant effect in determining the ultimate actuarial liabilities, but to demonstrate the impact due to changes in assumptions, assumptions are 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 level of economic assumptions.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

	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
Increase/(decrease)					
31 December 2016					
Mortality/morbidity	+10	14,304	11,917	(11,917)	(9,414)
Discount rate	-1	28,807	28,534	(28,534)	(22,542)
Expenses	+10	5,293	5,293	(5,293)	(4,181)
Lapse and surrender rates	+10	3,241	3,295	(3,295)	(2,603)
31 December 2015					
Mortality/morbidity	+10	15,664	14,181	(14,181)	(11,203)
Discount rate	-1	28,103	27,919	(27,919)	(22,056)
Expenses	+10	5,138	5,138	(5,138)	(4,059)
Lapse and surrender rates	+10	3,372	3,407	(3,407)	(2,692)

* Impact on equity is stated after considering tax effects

In the sensitivity analysis above, the impact from the changes in assumptions in the table above to the Company's profit before tax and equity arise from Non-participating life fund policies. There is no material impact to the Participating life funds within the range of changes in assumptions as the participating nature of the Participating life funds give the Company the flexibility to adjust the policyholders' bonus or dividends.

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

(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 investing 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 the policies and carry substantially no credit risk. Mortgage loans and staff loans are secured against the properties charged to the Company.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)****33. RISK MANAGEMENT (CONTINUED)****(e) Credit risk (continued)**

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.

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.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired Rating (BBB to AAA) RM'000	Not rated RM'000	Not subject to credit risk RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Investment -linked funds RM'000	Total RM'000
31 December 2016							
<u>AFS financial assets</u>							
Equity securities	-	-	747,750	-	-	-	747,750
Real estate investment trusts	-	-	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	867,782	292,657	-	-	-	-	1,160,439
Accrued interest	8,637	9,885	-	-	-	-	18,522
<u>Financial assets at FVTPL</u>							
- designated upon initial recognition							
Equity securities	-	-	-	-	-	399,724	399,724
Real estate investment trusts	-	-	-	-	-	7,623	7,623
Unit trust funds	-	-	-	-	-	7,166	7,166
Malaysian Government Securities	-	74,661	-	-	-	2,928	77,589
Government Investment Issues	-	24,434	-	-	-	2,947	27,381
Corporate debt securities	95,905	36,062	-	-	-	74,071	206,038
Mutual funds	-	-	-	-	-	607,312	607,312
Accrued interest	906	1,337	-	-	-	637	2,880
<u>Loans and receivables</u>							
Fixed and call deposits	3,686	-	-	-	-	93,785	97,471
Loans receivable	-	173,712	-	64	540	-	174,316
Other receivables	-	14,094	-	3	287	14,819	29,203
Reinsurance assets	3,658	4,953	-	-	-	-	8,611
Insurance receivables	-	28,781	-	-	1,066	-	29,847
Cash and cash equivalents	86,410	-	-	-	-	4,671	91,081
Allowance for impairment losses	-	-	-	-	(1,681)	-	(1,681)
Total financial and insurance assets	1,066,984	1,434,230	925,003	67	212	1,215,683	4,642,179

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired		Not subject to credit risk	Past due but not impaired	Past due and impaired	Investment -linked funds	Total
	Rating (BBB to AAA)	Not rated					
31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Financial liabilities at FVTPL</u>							
- designated upon initial recognition							
Forward foreign exchange contract	-	-	-	-	-	549	549
Total financial liabilities	-	-	-	-	-	549	549

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired		Not subject to credit risk	Past due but not impaired	Past due and impaired	Investment -linked funds	Total
	Rating (BBB to AAA)	Not rated					
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>AFS financial assets</u>							
Equity securities	-	-	722,131	-	-	-	722,131
Real estate investment trusts	-	-	3,056	-	-	-	3,056
Unit trust funds	-	-	206,179	-	-	-	206,179
Malaysian Government Securities	-	568,059	-	-	-	-	568,059
Government Investment Issues	-	186,402	-	-	-	-	186,402
Corporate debt securities	748,090	269,772	-	-	-	-	1,017,862
Accrued interest	7,384	10,123	-	-	-	-	17,507
<u>Financial assets at FVTPL</u>							
- designated upon initial recognition							
Equity securities	-	-	-	-	-	382,492	382,492
Unit trust funds	-	-	-	-	-	2,674	2,674
Malaysian Government Securities	-	55,758	-	-	-	11,581	67,339
Government Investment Issues	-	14,198	-	-	-	-	14,198
Corporate debt securities	82,416	38,554	-	-	-	70,773	191,743
Mutual funds	-	-	-	-	-	481,863	481,863
Forward foreign exchange contract	-	-	-	-	-	1,113	1,113
Accrued interest	765	1,169	-	-	-	635	2,569
<u>Loans and receivables</u>							
Fixed and call deposits	62,516	-	-	-	-	102,313	164,829
Loans receivable	-	200,328	-	128	383	-	200,839
Other receivables	-	26,224	-	13	278	5,890	32,405
Reinsurance assets	1,409	3,152	-	-	-	-	4,561
Insurance receivables	-	26,324	-	-	1,081	-	27,405
Cash and cash equivalents	59,706	-	-	-	-	4,872	64,578
Allowance for impairment losses	-	-	-	-	(1,687)	-	(1,687)
Total financial and insurance assets	962,286	1,400,063	931,366	141	55	1,064,206	4,358,117

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Age analysis of financial assets past-due but not impaired

	< 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	91 to 180 days RM'000	Over 180 days RM'000	Total RM'000
31 December 2016						
Loans receivable	-	-	-	-	64	64
Other receivables	-	-	-	-	3	3
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67</u>	<u>67</u>
31 December 2015						
Loans receivable	-	-	-	-	128	128
Other receivables	-	-	-	-	13	13
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>141</u>	<u>141</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

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 loans receivables, insurance receivables and other receivables in a separate allowance for impairment loss account. A reconciliation of the allowance for impairment losses for loans receivable, insurance receivables and other receivables is as follows:

	Loans receivable RM'000	Insurance receivables RM'000	Other receivables RM'000	Total RM'000
At 1 January 2016	181	1,228	278	1,687
Allowance for/(reversal of) for impairment losses during the financial year	147	(162)	9	(6)
At 31 December 2016	<u>328</u>	<u>1,066</u>	<u>287</u>	<u>1,681</u>
At 1 January 2015	181	1,074	-	1,255
Allowance for impairment losses during the financial year	-	154	278	432
At 31 December 2015	<u>181</u>	<u>1,228</u>	<u>278</u>	<u>1,687</u>

Allowance for impairment loss arose from individual impairment assessments during the financial year. There was no allowance of impairment loss arising from collective assessments.

(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 instrument 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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(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.

Exposure to foreign currency risk

The Company's exposure to the foreign currency (a currency which is other than the functional currency of the Company), based on carrying amounts as at the end of the reporting period was:

	Denominated in USD	
	2016	2015
	RM'000	RM'000
Amount due from related parties	3,910	2,148
Cash and cash equivalents	30,219	23,968
	<u>34,129</u>	<u>26,116</u>

The following table demonstrates the sensitivity to a reasonably possible change in currency, with all other variables held constant:

	Impact on profit before tax/equity	
	Increase/(decrease)	
	2016	2015
	RM'000	RM'000
Changes in foreign currency rates		
USD + 5%	1,706	1,306
USD - 5%	<u>(1,706)</u>	<u>(1,306)</u>

(ii) Interest rate risk

Interest rate risk is the risk that the fair 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 insurance contract liability, 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 instruments in the investment market. The participating nature of the Participating life fund gives the Company the flexibility to adjust the policyholders' bonus or dividends in the event of persistently high or low interest rates.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(ii) Interest rate risk (continued)

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.

Change in variable:	Impact on profit before tax		Impact on equity*	
	Increase/(decrease)		(Decrease)/increase	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
<u>Interest rate</u>				
+ 100 basis point	5,550	8,770	(10,828)	(4,006)
- 100 basis point	(8,590)	(12,658)	10,334	2,262

* Impact on equity is stated after considering tax effects

The above impact to the Company's equity arose from the investments in fixed income securities which are classified as AFS and FVTPL financial assets and the actuarial liabilities of the Non-participating funds; the impact to the Company's profit before tax arose from fixed income securities which are classified as FVTPL financial assets and the actuarial liabilities of the Non-participating funds. Any adverse impact on the Participating life fund results arising from changes in interest rate risk will be negated by an equivalent decrease in unallocated surplus in the insurance contract liabilities and vice versa. Hence, the impact arising from changes in interest rate risk to fixed income securities and actuarial liabilities of the Participating life fund of the Company 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 life fund gives the Company the flexibility to adjust the policyholders' bonus or dividends in the event of persistently high or low equity returns.

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.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(iii) Price risk (continued)

	<u>Impact on profit before tax</u>		<u>Impact on equity*</u>	
	<u>Increase/(decrease)</u>		<u>Increase/(decrease)</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Change in variable:				
<u>Market price</u>				
+15%	-	-	22,779	23,217
- 15%	-	-	(22,779)	(23,217)

* Impact on equity is stated after considering tax effects

The above impact to the Company's equity arose from the Non-participating life fund and Shareholder's fund investments in equity securities, unit trust funds and real estate investment trusts which are classified as AFS financial assets. Any adverse impact on the Participating life fund results arising from changes in price risk will be negated by an equivalent decrease in unallocated surplus in the insurance contract liabilities and vice versa. Hence, the impact arising from changes in price risk to equity securities, unit trust funds and real estate investment trusts of the Participating life fund is retained in the insurance contract liabilities.

(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 a Company transacting insurance business to predict the requirements of funding with absolute certainty as the 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 and insurance assets and financial and insurance liabilities into their relevant maturity groups based on the remaining undiscounted contractual obligations.

All liabilities are presented on a contractual cash flow basis except for the insurance contract liabilities which are presented based on 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.

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

31 December 2016	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	1,147,474	-	-	-	-	747,750	399,724	1,147,474
Real estate investment trusts	18,564	-	-	-	-	10,941	7,623	18,564
Malaysian Government Securities	654,672	28,279	56,608	66,028	945,993	-	2,928	1,099,836
Government Investment Issues	223,952	9,913	27,481	28,846	295,222	-	2,947	364,409
Corporate debt securities	1,366,477	127,944	400,918	228,046	979,999	-	74,071	1,810,978
Unit trust funds	173,478	-	-	-	-	166,312	7,166	173,478
Mutual funds	607,312	-	-	-	-	-	607,312	607,312
Accrued interest								
- AFS financial assets	18,522	18,522	-	-	-	-	-	18,522
- FVTPL financial assets	2,880	2,243	-	-	-	-	637	2,880
Loans receivable	173,988	621	1,067	626	899	170,775	-	173,988
Fixed and call deposits	97,471	3,686	-	-	-	-	93,785	97,471
Other receivables	28,916	13,707	-	-	390	-	14,819	28,916
Reinsurance assets	8,611	8,611	-	-	-	-	-	8,611
Insurance receivables	28,781	28,781	-	-	-	-	-	28,781
Cash and cash equivalents	91,081	86,410	-	-	-	-	4,671	91,081
Total financial and insurance assets	<u>4,642,179</u>	<u>328,717</u>	<u>486,074</u>	<u>323,546</u>	<u>2,222,503</u>	<u>1,095,778</u>	<u>1,215,683</u>	<u>5,672,301</u>
Insurance contract liabilities	3,591,347	177,114	160,881	316,313	5,306,920	-	1,197,495	7,158,723
Insurance claims liabilities	55,764	55,764	-	-	-	-	-	55,764
Forward foreign exchange contract	549	-	-	-	-	-	549	549
Insurance payables	479,294	479,294	-	-	-	-	-	479,294
Other payables	82,735	73,051	-	-	-	-	9,684	82,735
Total financial and insurance liabilities	<u>4,209,689</u>	<u>785,223</u>	<u>160,881</u>	<u>316,313</u>	<u>5,306,920</u>	<u>-</u>	<u>1,207,728</u>	<u>7,777,065</u>

Company No.

814942	M
--------	---

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

	Carrying value	Up to a year	1-3 years	3-5 years	Over 5 years	No maturity date	Investment- linked funds	Total
31 December 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Equity securities	1,104,623	-	-	-	-	722,131	382,492	1,104,623
Real estate investment trusts	3,056	-	-	-	-	3,056	-	3,056
Malaysian Government Securities	635,398	27,664	55,328	112,336	822,953	-	11,581	1,029,862
Government Investment Issues	200,600	9,027	26,054	17,789	277,764	-	-	330,634
Corporate debt securities	1,209,605	124,937	264,004	253,562	883,934	-	70,773	1,597,210
Unit trust funds	208,853	-	-	-	-	206,179	2,674	208,853
Mutual funds	481,863	-	-	-	-	-	481,863	481,863
Forward foreign exchange contract	1,113	-	-	-	-	-	1,113	1,113
Accrued interest								
- AFS financial assets	17,507	17,507	-	-	-	-	-	17,507
- FVTPL financial assets	2,569	1,934	-	-	-	-	635	2,569
Loans receivable	200,658	589	945	669	966	197,489	-	200,658
Fixed and call deposits	164,829	63,087	-	-	-	-	102,313	165,400
Other receivables	32,127	25,847	-	-	390	-	5,890	32,127
Reinsurance assets	4,561	4,561	-	-	-	-	-	4,561
Insurance receivables	26,177	26,177	-	-	-	-	-	26,177
Cash and cash equivalents	64,578	59,706	-	-	-	-	4,872	64,578
Total financial and insurance assets	<u>4,358,117</u>	<u>361,036</u>	<u>346,331</u>	<u>384,356</u>	<u>1,986,007</u>	<u>1,128,855</u>	<u>1,064,206</u>	<u>5,270,791</u>
Insurance contract liabilities	3,405,306	324,103	173,056	271,011	5,164,310	842	1,025,290	6,958,612
Insurance claims liabilities	51,635	51,635	-	-	-	-	-	51,635
Insurance payables	432,428	432,428	-	-	-	-	-	432,428
Other payables	90,043	61,278	-	-	-	-	28,765	90,043
Total financial and insurance liabilities	<u>3,979,412</u>	<u>869,444</u>	<u>173,056</u>	<u>271,011</u>	<u>5,164,310</u>	<u>842</u>	<u>1,054,055</u>	<u>7,532,718</u>

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

33. 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 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.

34. CAPITAL AND OTHER COMMITMENTS

	2016 RM'000	2015 RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	19,500	22,500

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.

35. COMPARATIVE FIGURES

Certain comparative in the statement of profit or loss figures have been reclassified to conform with current financial year's presentation as follows:

	As previously reported RM'000	Reclassifications RM'000	As restated RM'000
Statement of profit or loss			
Net fair value losses	(64,609)	(27,618)	(92,227)
Other operating income /(expenses)	38,128	27,618	65,746

The reclassification was done to include the realised loss on forward foreign exchange contract in net fair value losses.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

36. SUBSEQUENT EVENT

The Companies Act 2016 ("New Act") was enacted to replace the Companies Act 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representatives) and gazetted on 15 September 2016. The Minister of Domestic Trade, Co-operatives and Consumerism and Suruhanjaya Syarikat Malaysia ("SSM") had announced 31 January 2017 as the effective date of the New Act, except section 241 and Division 8 of Part III.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Company upon the commencement of the New Act on 31 January 2017 are:

- (a) Removal of the authorised share capital; and
- (b) Shares of the Company will cease to have par or nominal value.

The adoption of the New Act is not expected to have any significant financial impact on the Company for the current financial year as any accounting implications will only be applied prospectively.

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
37. INSURANCE FUNDS

The Company's activities are managed by funds and segregated into Life fund, Investment-linked funds and Shareholder's fund in accordance with the Financial Services Act 2013.

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

Statement of Financial Position by Funds

31 December 2016	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	-	17,916	-	-	17,916
Investment properties	-	50,913	-	-	50,913
Intangible assets	23,546	4,956	-	-	28,502
Loans and receivables	159,686	188,908	108,604	(155,776)	301,422
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
Reinsurance assets	-	8,611	-	-	8,611
Insurance receivables	-	28,781	-	-	28,781
Cash and cash equivalents	9,021	77,389	4,671	-	91,081
Total assets	528,041	3,152,609	1,215,683	(155,776)	4,740,557
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	346,913	-	-	-	346,913
Fair value reserve	2,920	-	-	-	2,920
Total equity	499,833	-	-	-	499,833
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
Total equity, policyholders' funds and liabilities	528,041	3,152,609	1,215,683	(155,776)	4,740,557

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
37. INSURANCE FUNDS (CONTINUED)
Statement of Financial Position by Funds (continued)

31 December 2015	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	-	19,790	-	-	19,790
Investment properties	-	51,320	-	-	51,320
Intangible assets	29,800	920	-	-	30,720
Loans and receivables	172,665	286,758	108,203	(168,263)	399,363
Available-for-sale financial assets	257,875	2,468,691	-	(5,370)	2,721,196
Financial assets at fair value through profit or loss	-	192,859	951,132	-	1,143,991
Reinsurance assets	-	4,561	-	-	4,561
Current tax asset	(2,997)	3,503	348	-	854
Insurance receivables	-	26,177	-	-	26,177
Cash and cash equivalents	9,135	50,571	4,872	-	64,578
Total assets	466,478	3,105,150	1,064,555	(173,633)	4,462,550
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	291,470	-	-	-	291,470
Fair value reserve	10,854	-	-	(1,215)	9,639
Total equity	452,324	-	-	(1,215)	451,109
Insurance contract liabilities	-	2,380,018	1,029,038	(3,750)	3,405,306
Insurance claims liabilities	-	51,635	-	-	51,635
Deferred tax liabilities	22,601	3,081	6,752	(405)	32,029
Insurance payables	-	432,428	-	-	432,428
Other payables	(8,447)	237,988	28,765	(168,263)	90,043
Total equity, policyholders' funds and liabilities	466,478	3,105,150	1,064,555	(173,633)	4,462,550

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
37. INSURANCE FUNDS (CONTINUED)
Statement of Profit or Loss by Funds

2016	Shareholder's fund RM'000	Insurance funds		Elimination RM'000	Total RM'000
		Life fund RM'000	Investment- linked funds RM'000		
Premium income					
Gross premiums	-	522,442	355,308	-	877,750
Premiums ceded to reinsurers	-	(27,130)	-	-	(27,130)
Net premiums	-	495,312	355,308	-	850,620
Investment income	13,259	127,440	26,552	-	167,251
Net realised gains	1,869	17,243	-	(1,612)	17,500
Net fair value losses	(550)	(26,526)	(41,657)	-	(68,733)
Fee income	-	14,876	-	(11,596)	3,280
Other operating income	-	105	1,204	-	1,309
Total revenue	14,578	628,450	341,407	(13,208)	971,227
Gross benefits and claims paid	-	(375,686)	(190,843)	5,362	(561,167)
Claims ceded to reinsurers	-	10,260	-	-	10,260
Gross change in contract liabilities	-	(19,867)	(168,455)	(3,750)	(192,072)
Change in insurance contract liabilities ceded to reinsurers	-	1,727	-	-	1,727
Net claims	-	(383,566)	(359,298)	1,612	(741,252)
Fee and commission expenses	-	(70,927)	-	-	(70,927)
Investment expenses	(677)	(8,211)	-	-	(8,888)
Management expenses	(12,549)	(94,890)	(15,052)	11,596	(110,895)
Other operating (expenses)/income	(567)	(908)	32,943	-	31,468
Other expenses	(13,793)	(174,936)	17,891	11,596	(159,242)
Profit from operations	785	69,948	-	-	70,733
Transfer from/(to) revenue account	69,948	(69,948)	-	-	-
Profit before taxation	70,733	-	-	-	70,733
Taxation	(15,290)	-	-	-	(15,290)
Net profit for the financial year	55,443	-	-	-	55,443

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)
37. INSURANCE FUNDS (CONTINUED)
Statement of Profit or Loss by Funds (continued)

2015	Shareholder's fund RM'000	Insurance funds		Elimination RM'000	Total RM'000
		Life fund RM'000	Investment- linked funds RM'000		
Premium income					
Gross premiums	-	474,011	340,166	-	814,177
Premiums ceded to reinsurers	-	(16,104)	-	-	(16,104)
Net premiums	-	457,907	340,166	-	798,073
Investment income	9,984	129,145	22,614	-	161,743
Net realised gains	2,083	22,363	-	(1,738)	22,708
Net fair value losses	(578)	(37,311)	(54,338)	-	(92,227)
Fee income	-	12,949	-	(9,606)	3,343
Other operating income	-	13	1,591	-	1,604
Total revenue	11,489	585,066	310,033	(11,344)	895,244
Gross benefits and claims paid	-	(400,860)	(209,659)	6,738	(603,781)
Claims ceded to reinsurers	-	5,279	-	-	5,279
Gross change in contract liabilities	-	31,476	(159,486)	(5,000)	(133,010)
Change in insurance contract liabilities ceded to reinsurers	-	1,727	-	-	1,727
Net claims	-	(362,378)	(369,145)	1,738	(729,785)
Fee and commission expenses	-	(61,426)	-	-	(61,426)
Investment expenses	(540)	(7,820)	-	-	(8,360)
Management expenses	(11,356)	(88,822)	(12,019)	9,606	(102,591)
Other operating (expenses)/income	(319)	(5,066)	71,131	-	65,746
Other expenses	(12,215)	(163,134)	59,112	9,606	(106,631)
(Loss)/Profit from operations	(726)	59,554	-	-	58,828
Transfer (to life fund)/ from shareholder's fund	(11,277)	11,277	-	-	-
Transfer from/(to) revenue account	70,831	(70,831)	-	-	-
Profit before taxation	58,828	-	-	-	58,828
Taxation	(14,855)	-	-	-	(14,855)
Net profit for the financial year	43,973	-	-	-	43,973

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

37. INSURANCE FUNDS (CONTINUED)

Information on cash flows by Funds

	Shareholder's fund	Insurance funds		Total
		Life fund	Investment- linked funds	
	RM'000	RM'000	RM'000	RM'000
2016				
Cash flows from:				
Operating activities	(115)	31,370	(201)	31,054
Investing activities	-	(4,551)	-	(4,551)
Net (decrease)/increase in cash and cash equivalents	(115)	26,819	(201)	26,503
At beginning of financial year	9,135	50,571	4,872	64,578
At end of financial year	9,020	77,390	4,671	91,081
2015				
Cash flows from:				
Operating activities	5,048	2,169	2,447	9,664
Investing activities	-	(1,489)	-	(1,489)
Net increase in cash and cash equivalents	5,048	680	2,447	8,175
At beginning of financial year	4,087	49,891	2,425	56,403
At end of financial year	9,135	50,571	4,872	64,578