

Company No.

814942	M
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**MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

**STATUTORY REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2012**

Company No.

814942

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## **MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

### **REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2012**

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## **MANULIFE INSURANCE BERHAD**

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### **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 2012.

### **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	46,332

### **DIVIDENDS**

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

The directors recommend the payment of a first and final single tier dividend of 66.67 sen per share, amounting to RM200,010,004 in respect of the financial year ended 31 December 2012, which is subject to the approval of the shareholder of the Company at the forthcoming Annual General Meeting.

### **RESERVES AND PROVISIONS**

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

### **SHARE CAPITAL**

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

### **PROVISION FOR INSURANCE LIABILITIES**

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

### **BAD AND DOUBTFUL DEBTS**

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

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## **MANULIFE INSURANCE BERHAD**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **BAD AND DOUBTFUL DEBTS (CONTINUED)**

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

#### **CURRENT ASSETS**

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

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

#### **VALUATION METHODS**

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

#### **CONTINGENT AND OTHER LIABILITIES**

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

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

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

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

#### **CHANGE OF CIRCUMSTANCES**

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

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## **MANULIFE INSURANCE BERHAD**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **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, other than the effects of the transition from Financial Reporting Standards ("FRS") to Malaysian Financial Reporting Standards ("MFRS") as disclosed in note 2(a)(i) to the financial statements.

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

#### **PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE**

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

##### **Board responsibility and oversight**

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

##### **Board Committees**

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

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

##### **Audit Committee**

The members of the Audit Committee of the Company as at 31 December 2012 are as follows:-

Lim Hun Soon @ David Lim (*Chairman*) (Appointed on 17 July 2012)

Gianni Fiacco

Datuk Seri Panglima Mohd Annuar bin Zaini

Dato' Dr. Nik Norzrul Thani bin N Hassan Thani

Datuk Abu Hassan bin Kendut (*Chairman*) (Resigned on 26 June 2012)

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## MANULIFE INSURANCE BERHAD

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### DIRECTORS' REPORT (CONTINUED)

#### PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

A total of five (5) Audit Committee Meetings were held on 21 February 2012, 20 March 2012, 16 May 2012, 14 August 2012 and 20 November 2012, for the financial year ended 31 December 2012. The attendance of the Audit Committee members are as follows:-

Name of Members	Attendance
Lim Hun Soon @ David Lim (Chairman) ( <i>Appointed on 17 July 2012</i> )	2 out of 2 meetings
Gianni Fiacco	4 out of 5 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	4 out of 5 meetings
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani	5 out of 5 meetings
Datuk Abu Hassan bin Kendut (Chairman) ( <i>Resigned on 26 June 2012</i> )	3 out of 3 meetings

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

#### **Management accountability**

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

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

#### **Corporate independence**

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

#### **Internal controls and operational risk management**

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

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## **MANULIFE INSURANCE BERHAD**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)**

##### **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.

#### **DIRECTORS**

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

Dato' Md Agil bin Mohd Natt (Appointed on 29 June 2012)  
Datuk Seri Panglima Mohd Annuar bin Zaini  
Dato' Dr. Nik Norzrul Thani bin N Hassan Thani  
Lim Hun Soon @ David Lim (Appointed on 17 July 2012)  
Chew Yee Ming George (Appointed on 28 September 2012)  
Philip John Hampden-Smith  
Robert Allen Cook  
Gianni Fiacco  
Chan Yui Lung (Resigned on 31 May 2012)  
Datuk Abu Hassan bin Kendut (Resigned on 26 June 2012)  
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim (Resigned on 29 June 2012)

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, Mr Robert Allen Cook and Mr Gianni Fiacco 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, Mr Lim Hun Soon @ David Lim, Dato' Md Agil bin Mohd Natt and Mr Chew Yee Ming George shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

#### **DIRECTORS' BENEFITS**

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

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

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## MANULIFE INSURANCE BERHAD

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### DIRECTORS' REPORT (CONTINUED)

#### DIRECTORS' INTERESTS

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

	As at 1.1.2012	Acquired	Number of ordinary shares	
			Sold	As at 31.12.2012
<u>Manulife Financial Corporation</u>				
- Direct interest				
Robert Allen Cook	10,000	-	-	10,000
Gianni Fiacco	334	-	-	334

	As at 1.1.2012/ date of appointment	Number of option on ordinary shares		
		Granted	Lapsed	As at 31.12.2012
<u>Manulife Financial Corporation</u>				
- Direct interest				
Robert Allen Cook	820,196	262,081	(64,000)	1,018,277
Philip John Hampden-Smith	251,428	61,649	-	313,077
Gianni Fiacco	21,584	-	-	21,584
Chew Yee Ming George	32,882	37,253	(8,741)	61,394

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.

	As at 1.1.2012/ date of appointment	Number of deferred/restricted share units		
		Reinvested/ Granted	Lapsed	As at 31.12.2012
<u>Manulife Financial Corporation</u>				
- Direct interest				
Robert Allen Cook	97,633	39,065	(6,735)	129,963
Philip John Hampden-Smith	56,196	10,587	(4,490)	62,293
Gianni Fiacco	13,067	15,801	(3,781)	25,087
Chew Yee Ming George	53,100	-	-	53,100



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## **MANULIFE INSURANCE BERHAD**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **DIRECTORS' INTERESTS (CONTINUED)**

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

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

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

#### **HOLDING COMPANY**

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

#### **AUDITORS**

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 20 March 2013.

**DATO' MD AGIL BIN MOHD NATT**

CHAIRMAN

Kuala Lumpur

**CHEW YEE MING GEORGE**

DIRECTOR

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**MANULIFE INSURANCE BERHAD**

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**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012**

	Note	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
<b>ASSETS</b>				
Property and equipment	4	9,597	9,415	4,583
Investment properties	5	48,897	48,633	51,215
Intangible assets	6	-	61	184
Loans and receivables	7	547,363	494,516	540,537
Available-for-sale financial assets	8(a)	2,437,881	2,263,027	2,037,181
Fair value through profit or loss financial assets	8(b)	714,785	656,565	673,551
Reinsurance assets		3,268	3,021	2,368
Insurance receivables	9	27,995	27,123	24,512
Current tax assets		-	4,035	-
Cash and cash equivalents		30,430	24,260	89,657
<b>TOTAL ASSETS</b>		<b>3,820,216</b>	<b>3,530,656</b>	<b>3,423,788</b>
<b>EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES</b>				
Share capital	10	150,000	150,000	150,000
Retained earnings	11	341,766	295,434	259,574
Other reserves	11	27,437	19,112	19,475
<b>TOTAL EQUITY</b>		<b>519,203</b>	<b>464,546</b>	<b>429,049</b>
Insurance contract liabilities	12	2,803,687	2,607,779	2,548,269
Insurance claims liabilities	13	36,133	35,371	28,885
Deferred tax liabilities	14	47,571	59,714	73,406
Insurance payables	15	348,676	328,461	294,114
Current tax liabilities		11,157	-	3,053
Other payables	16	53,789	34,785	47,012
<b>TOTAL LIABILITIES</b>		<b>3,301,013</b>	<b>3,066,110</b>	<b>2,994,739</b>
<b>TOTAL EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES</b>		<b>3,820,216</b>	<b>3,530,656</b>	<b>3,423,788</b>

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

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**MANULIFE INSURANCE BERHAD**

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012**

	Note	2012 RM'000	2011 RM'000
Premium income			
Gross premiums		515,366	487,905
Premiums ceded to reinsurers		<u>(10,499)</u>	<u>(10,582)</u>
Net premiums	17	504,867	477,323
Investment income	18	147,846	140,227
Net realised gains	19	66,185	49,873
Net fair value gains	20	35,729	-
Other operating income		<u>933</u>	<u>4,571</u>
<b>Total revenue</b>		<u>755,560</u>	<u>671,994</u>
Gross benefits and claims paid		(375,286)	(422,856)
Claims ceded to reinsurers		5,715	3,857
Gross change in contract liabilities		<u>(169,824)</u>	<u>(75,299)</u>
<b>Net claims</b>		<u>(539,395)</u>	<u>(494,298)</u>
Fee and commission expenses		(73,231)	(65,464)
Net fair value losses	20	-	(10,531)
Investment expenses		(8,178)	(7,481)
Management expenses	21	(59,018)	(44,161)
Other operating expenses	23	<u>(18,679)</u>	<u>(9,633)</u>
<b>Other expenses</b>		<u>(159,106)</u>	<u>(137,270)</u>
<b>Profit before taxation</b>		57,059	40,426
Taxation	24	<u>(10,727)</u>	<u>(4,566)</u>
<b>Net profit for the financial year</b>		<u>46,332</u>	<u>35,860</u>
<b>Other comprehensive income/(loss):</b>			
Fair value change on available-for-sale financial assets, net of deferred tax:			
- Gross fair value change	8(c)	37,613	(18,614)
- Deferred tax	14	<u>(3,204)</u>	<u>2,462</u>
- Net gains/(losses)		34,409	(16,152)
Change in insurance contract liabilities arising from unrealised net fair value (gains)/losses	12	<u>(26,084)</u>	<u>15,789</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>8,325</u>	<u>(363)</u>
<b>Total comprehensive income for the financial year</b>		<u>54,657</u>	<u>35,497</u>
<b>Net profit attributable to:</b>			
Equity holders of the Company		<u>46,332</u>	<u>35,860</u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		<u>54,657</u>	<u>35,497</u>
Basic earnings per share (sen)	25	<u>15.44</u>	<u>11.95</u>

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

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## MANULIFE INSURANCE BERHAD

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### STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	Share capital	Fair value reserve	Retained earnings	Total
		RM'000	RM'000	RM'000	RM'000
At 1 January 2011		150,000	10,310	112,644	272,954
Effects on adoption of MFRS	2(a)(i), 32	-	9,165	146,930	156,095
At 1 January 2011 – under MFRS		150,000	19,475	259,574	429,049
Total comprehensive (loss)/income for the financial year		-	(363)	35,860	35,497
At 31 December 2011		<u>150,000</u>	<u>19,112</u>	<u>295,434</u>	<u>464,546</u>
At 1 January 2012		150,000	10,252	174,965	335,217
Effects on adoption of MFRS	2(a)(i), 32	-	8,860	120,469	129,329
At 1 January 2012 – under MFRS		150,000	19,112	295,434	464,546
Total comprehensive income for the financial year		-	8,325	46,332	54,657
At 31 December 2012		<u>150,000</u>	<u>27,437</u>	<u>341,766</u>	<u>519,203</u>

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

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## MANULIFE INSURANCE BERHAD

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### STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the financial year		46,332	35,860
Adjustments for non-cash items	27	(50,515)	(92,651)
Operating loss before changes in operating assets and liabilities		(4,183)	(56,791)
Purchase of investments		(1,158,984)	(1,127,218)
Proceeds from sale and maturity of investments		1,066,981	948,320
Interest income received		103,222	100,846
Dividend income received		33,415	27,600
Rental income received		3,847	2,687
(Increase)/decrease in other receivables		(11,720)	4,390
Increase in payables		39,219	22,120
Increase in insurance claims liabilities		515	5,833
(Increase)/decrease in fixed and call deposits		(53,982)	7,868
Decrease in loans receivable		13,679	30,521
Cash generated from/(used in) operations		32,009	(33,824)
Income taxes paid		(24,264)	(29,840)
Net cash inflow/(outflow) from operating activities		7,745	(63,664)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(1,587)	(1,734)
Proceeds from disposal of property and equipment		12	1
Net cash outflow from investing activities		(1,575)	(1,733)
<b>CASH AND CASH EQUIVALENTS</b>			
Net increase/(decrease) during the financial year		6,170	(65,397)
Cash and cash equivalents at 1 January		24,260	89,657
Cash and cash equivalents at 31 December		30,430	24,260

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**MANULIFE INSURANCE BERHAD**

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**STATEMENT OF CASH FLOWS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

**CASH AND CASH EQUIVALENTS**

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

	<u>2012</u>	<u>2011</u>
	RM'000	RM'000
Cash and bank balances	24,394	18,773
Short-term deposits	6,036	5,487
Cash and cash equivalents	<u>30,430</u>	<u>24,260</u>

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

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**

#### **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 Toronto, New York and Hong Kong Stock Exchanges.

##### **Principal activity**

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

##### **Registered office and principal place of business**

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

#### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **(a) Basis of preparation**

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia. These are the Company's first financial statements prepared in accordance with MFRS, including MFRS 1 "First-time adoption of Malaysian Financial Reporting Standards". Subject to certain transition elections disclosed in note 2(a)(i), the Company has consistently applied the same accounting policies in its opening MFRS statements of financial position at 1 January 2011 (transition date) and throughout all financial years presented, as if these policies had always been in effect. Comparative figures for 2011 in these financial statements have been restated to give effect to these changes. Note 32 discloses the impact of the transition to MFRS on the Company's reported financial position, financial performance and cash flows.

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

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)****(i) Effects of transition from Financial Reporting Standards ("FRS") to MFRS**

The effects of the Company's transition to MFRS is summarised as follows:

MFRS 1 Mandatory Exceptions

- MFRS estimates

MFRS estimates as at transition date are consistent with the estimates as at the same date made in conformity with FRS.

Unallocated surplus and fair value reserve on Non-participating life fund

- Under FRS, the Company recognised unallocated surplus and fair value reserve of Non-participating life fund as part of insurance contract liabilities as required under Guideline BNM\_GL\_003-28 Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM") on 22 July 2010.

On adoption of MFRS, in accordance to MFRS 4 "Insurance contracts" and the Framework for Preparation and Presentation of Financial Statements, the Company treated the unallocated surplus and fair value reserve of Non-participating life fund from insurance contract liabilities as equity component of the Company.

The impact of adopting this accounting policy to the Company is disclosed in note 32.

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

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

Financial year beginning on/after 1 January 2013

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



**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

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

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

- Amendment to MFRS 7 “Financial instruments: Disclosures” (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset. The Company will apply this standard from financial period beginning on 1 January 2013.
- Amendment to MFRS 101 “Presentation of items of other comprehensive income” (effective from 1 July 2012) requires entities to separate items presented in other comprehensive income (“OCI”) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI. The Company will apply this standard from financial period beginning on 1 January 2013.
- Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures of all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment. The Company will apply this standard from financial period beginning on 1 January 2013.

Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132 “Financial instruments: Presentation” (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of ‘currently has a legally enforceable right of set-off’ that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria. The Company will apply this standard from financial period beginning on 1 January 2014.

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

Financial year beginning on/after 1 January 2015

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

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

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

The Company will apply this standard from financial period beginning on 1 January 2015.

**(b) Property and equipment**

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

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(b) Property and equipment (continued)**

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

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

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

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

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

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

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Intangible assets**

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

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

**(d) Financial instruments****(i) Classification, recognition and measurement of financial assets**

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

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

**(1) FVTPL**

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (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 allowance for impairment. 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 allowance for impairment. 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.

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 transferred to profit or loss as net realised gains on financial assets.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) Financial instruments (continued)****(ii) Derecognition and impairment of financial assets**

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

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

**(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, correlation, 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Investment properties**

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

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

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

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

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

**(g) Impairment****(i) Financial assets**

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

**Financial assets carried at amortised cost**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Impairment (continued)****(i) Financial assets (continued)****Financial assets carried at amortised cost (continued)**

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

**AFS financial assets**

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

**(ii) Non-financial assets**

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

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(h) Employee benefits****(i) Short-term employee benefits**

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

**(ii) Post-employment benefits**

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

Other than the mandatory contributions to the Employees' Provident Fund, the Company 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. An actuarial investigation into the financial condition of the Scheme is made at intervals not longer than one year. The last actuarial investigation was performed as at 31 December 2012.

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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(h) Employee benefits (continued)****(iii) Share-based plan**

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

**(i) Equity-settled share based compensation**

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

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

**(ii) Cash-settled share-based compensation**

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

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

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

**(i) Foreign currencies****(i) 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Foreign currencies (continued)****(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 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 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.

**(j) Product classification**

An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. For purpose of 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Product classification (continued)**

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or 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 fund are classified as insurance contracts with DPF and contracts in the Non-participating life fund are classified as insurance contracts without DPF.

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

**(k) Reinsurance**

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(k) Reinsurance (continued)**

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

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

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

**(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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Life insurance underwriting results (continued)****(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:

- (a)** maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- (b)** death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

**(m) Insurance receivables**

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

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

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

**(n) Assets held for sale**

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Taxation**

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

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

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

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

**(p) Cash and cash equivalents**

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

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.

**(q) Other revenue recognition**

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(q) Other revenue recognition (continued)**

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

**(r) Dividends on ordinary share capital**

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

**(s) Contingent liabilities and contingent assets**

The Company does not recognise a contingent liability but 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.

**(t) 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 and non-unit liabilities of investment-linked policies.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Insurance contract liabilities (continued)****(i) Actuarial liabilities (continued)**

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 zeroisation.

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

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

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

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

**(ii) Unallocated surplus**

Surpluses of contract under the Participating life fund are attributable to policyholders and shareholders and the amount and timing of distribution to both the policyholders and shareholders are determined by an actuarial valuation of the long term liabilities to policyholders at the date of the statement of financial position and is made in accordance with the provision of the Insurance Act, 1996 and related regulation by the Company's Appointed Actuary. Unallocated surplus of Participating life fund, where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the insurance contract liabilities.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Insurance contract liabilities (continued)****(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 self-occupied properties of Participating life fund 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 policy is equal to the net asset value of the investment-linked funds, which represents net premium received and investment returns credited to the policy less deduction for mortality, morbidity costs and expense charges.

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (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. 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 (including lapse) rates, 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, the non-unit liabilities of the Investment-linked funds and the guaranteed benefits liabilities of the Participating life fund under the "Risk-Based Capital Framework for Insurers" are described below:-

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

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

The following are the zero coupon spot yields as at current financial year end which are obtained from Bond Pricing Agency Malaysia Sdn Bhd, a bond pricing agency approved by BNM.

Tenor (Years)	1	2	3	4	5	6	7	8	9	10
Zero Coupon Spot Yield	3.05%	3.07%	3.09%	3.20%	3.28%	3.41%	3.50%	3.53%	3.56%	3.56%

Tenor (Years)	11	12	13	14	15+
Zero Coupon Spot Yield	3.61%	3.66%	3.70%	3.75%	3.80%

The risk free discounting yield will be adjusted downwards by 6 basis points per annum to reflect the expense for the levy assessed by Malaysia Deposit Insurance Corporation (or Perbadanan Insurans Deposit Malaysia, "PIDM").

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

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

##### Valuation of actuarial liabilities (continued)

For the valuation of total benefits liabilities of the Participating life fund, the net fund based yields are used. The graded net fund based yields as at current financial year end for the ordinary life participating fund and annuity fund respectively follow the interest rate vectors shown below.

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022+
Ordinary Par	5.25%	5.36%	5.48%	5.60%	5.71%	5.83%	5.95%	6.06%	6.18%	6.30%
Annuity Par	4.69%	4.84%	4.98%	5.12%	5.27%	5.41%	5.56%	5.70%	5.84%	5.99%

The graded yields shown above have been adjusted downwards by 6 basis points per annum to reflect the expense for the levy assessed by PIDM.

##### Mortality, morbidity, critical illness, expenses and surrenders (including lapses)

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.

The current expense assumption is derived from recent expense study which targeting breakeven in year 2016 in accordance to the planned sales and budget. An explicit maintenance expense deficiency reserve has been established to cater for current expected overrun. The expense for levy assessed by PIDM (i.e. 6 basis points per annum of the actuarial valuation of the insurance contract liabilities) has been implicitly reflected by the 6 basis points annual reduction of the valuation yield. In addition, inflation rate is assumed to be 3.5% p.a. on the fixed expenses.

In the current financial year, the Company has revised its surrender (including lapse) assumptions to reflect latest experience from its recent study.

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

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

##### Participating Policyholders' Bonuses/Dividends

Continuance of current bonus level (reflected with Bonus Revision 2012 which was effective from 1 September 2012) is assumed in the best estimate valuation.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****4 PROPERTY AND EQUIPMENT**

	Building RM'000	Work in progress RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>					
At 1 January 2011	-	-	12,693	154	12,847
Additions	-	50	1,577	107	1,734
Transfer from investment properties (note 5)	4,337	-	-	-	4,337
Disposals	-	-	(16)	-	(16)
Transfer to immediate holding company	-	-	(2)	-	(2)
Write off	-	-	(200)	-	(200)
At 31 December 2011 / 1 January 2012	4,337	50	14,052	261	18,700
Additions	-	924	658	5	1,587
Disposals	-	-	(8)	-	(8)
Transfer to a related company	-	-	(81)	-	(81)
Write off	-	-	(125)	-	(125)
At 31 December 2012	4,337	974	14,496	266	20,073
<b>Accumulated depreciation</b>					
At 1 January 2011	-	-	8,163	101	8,264
Charge for the financial year	-	-	1,087	20	1,107
Disposals	-	-	(11)	-	(11)
Transfer to immediate holding company	-	-	(2)	-	(2)
Write off	-	-	(73)	-	(73)
At 31 December 2011 / 1 January 2012	-	-	9,164	121	9,285
Charge for the financial year	121	-	1,171	23	1,315
Disposals	-	-	(5)	-	(5)
Transfer to a related company	-	-	(43)	-	(43)
Write off	-	-	(76)	-	(76)
At 31 December 2012	121	-	10,211	144	10,476
<b>Carrying amount</b>					
At 31 December 2012	4,216	974	4,285	122	9,597
At 31 December 2011	4,337	50	4,888	140	9,415
At 1 January 2011	-	-	4,530	53	4,583

As at the reporting date, the title of the freehold properties is registered in the name of the immediate holding company. The immediate holding company will transfer the title of the property in favour of the Company, to achieve compliance with the Insurance Act 1996, once clearance is obtained from the relevant authority, and the floors belonging to the immediate holding company will be held in trust by the Company.

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

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Building	3,574	3,652	-

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****5 INVESTMENT PROPERTIES**

	2012 RM'000	2011 RM'000
At 1 January	48,633	51,215
Transfer to self-occupied properties (note 4)	-	(4,337)
Fair value gain (note 20)	264	1,755
At 31 December	<u>48,897</u>	<u>48,633</u>
Represented by:		
Freehold properties	<u>48,897</u>	<u>48,633</u>

In 2012, the Company has carried out a valuation of the properties based on the investment method conducted by an independent qualified valuer, Mr Foo Gee Jen (Dip. In Valuation, B.Surv (Hons) Prop.Mgt., MRICS, FRISM, MPEPS, MMIPPM Registered Valuer (V-368)) of C H Williams Talhar & Wong Sdn Bhd. The valuation of these properties was adopted by the directors for the financial year ended 31 December 2012.

As at the reporting date, the title of the investment properties is registered in the name of the immediate holding company. The immediate holding company will transfer the title of the property in favour of the Company, to achieve compliance with the Insurance Act 1996, once clearance is obtained from the relevant authority, and the floors belonging to the immediate holding company will be held in trust by the Company.

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

	2012 RM'000	2011 RM'000
Rental income	4,029	3,874
Direct operating expenses arising from investment properties that generate rental income	(1,619)	(1,310)
Direct operating expenses arising from investment properties that did not generate rental income	<u>(136)</u>	<u>(264)</u>

**6 INTANGIBLE ASSETS**

	2012 RM'000	2011 RM'000
<b>Cost</b>		
At 1 January/31 December	<u>491</u>	<u>491</u>
<b>Accumulated amortisation</b>		
At 1 January	430	307
Charge for the financial year	61	123
At 31 December	<u>491</u>	<u>430</u>
<b>Carrying amount</b>	<u>-</u>	<u>61</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****7 LOANS AND RECEIVABLES**

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Loans receivable:			
Policy loans	309,657	323,088	340,372
Mortgage loans	2,894	3,231	1,106
Secured loans	-	-	15,288
Staff loans	382	293	367
	<u>312,933</u>	<u>326,612</u>	<u>357,133</u>
Allowance for impairment loss	(181)	(181)	(181)
(i)	<u>312,752</u>	<u>326,431</u>	<u>356,952</u>
Fixed and call deposits with licensed banks in Malaysia	216,901	160,607	166,274
Accrued interest	109	65	988
(ii)	<u>217,010</u>	<u>160,672</u>	<u>167,262</u>
Other receivables:			
Amount due from related companies (iii)	280	174	281
Accrued dividend income	1,015	1,392	1,652
Accrued rental income	270	88	74
Deposits	628	511	421
Other debtors	14,708	4,915	13,455
(iv)	<u>16,901</u>	<u>7,080</u>	<u>15,883</u>
Prepayments (v)	700	333	440
Total	<u>547,363</u>	<u>494,516</u>	<u>540,537</u>
(i) Loans receivable:			
Receivable within 12 months	362	698	856
Receivable after 12 months	<u>312,390</u>	<u>325,733</u>	<u>356,096</u>
	<u>312,752</u>	<u>326,431</u>	<u>356,952</u>
(ii) Fixed and call deposits:			
Receivable within 12 months	165,100	111,074	132,761
Receivable after 12 months	<u>51,910</u>	<u>49,598</u>	<u>34,501</u>
	<u>217,010</u>	<u>160,672</u>	<u>167,262</u>
(iii) The amount due from related companies is unsecured, trade related, interest free and repayable on demand.			
(iv) Other receivables:			
Receivable within 12 months	16,511	6,690	15,493
Receivable after 12 months	<u>390</u>	<u>390</u>	<u>390</u>
	<u>16,901</u>	<u>7,080</u>	<u>15,883</u>
(v) Prepayments:			
Receivable within 12 months	<u>700</u>	<u>333</u>	<u>440</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****8 FINANCIAL ASSETS****(a) Available-for-sale**

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Equity securities			
- Quoted in Malaysia	679,002	660,610	618,305
- Unquoted	1,944	1,944	1,944
Real estate investment trusts			
- Quoted in Malaysia	-	1,467	-
Unit trust funds	90,010	82,830	81,765
Malaysian Government Securities	726,006	632,887	522,447
Government Investment Issues	145,725	97,109	84,777
Corporate debt securities			
- Unquoted	780,776	773,411	716,112
Accrued interest	14,418	12,769	11,831
	<u>2,437,881</u>	<u>2,263,027</u>	<u>2,037,181</u>
Current	856,758	855,011	731,772
Non-current	1,581,123	1,408,016	1,305,409
	<u>2,437,881</u>	<u>2,263,027</u>	<u>2,037,181</u>



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****8 FINANCIAL ASSETS (CONTINUED)****(b) Fair value through profit or loss - designated upon initial recognition**

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Equity securities			
- Quoted in Malaysia	249,107	203,037	188,983
- Quoted outside Malaysia	2,575	-	-
Malaysian Government Securities	130,712	140,807	116,315
Government Investment Issues	21,478	18,338	15,270
Corporate debt securities			
- Unquoted	217,294	201,571	196,712
Equity call options			
- Unquoted	-	-	5,723
Mutual funds			
- Quoted outside Malaysia	90,700	90,105	102,709
Negotiable instrument of deposits	-	-	45,373
Accrued interest	2,919	2,707	2,466
	<u>714,785</u>	<u>656,565</u>	<u>673,551</u>
Current	422,471	367,184	398,286
Non-current	292,314	289,381	275,265
	<u>714,785</u>	<u>656,565</u>	<u>673,551</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****8 FINANCIAL ASSETS (CONTINUED)****(c) Carrying value of financial assets**

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

	Available- for-sale	Fair value through profit or loss	Total
	RM'000	RM'000	RM'000
At 1 January 2011	2,037,181	673,551	2,710,732
Purchases	561,328	565,890	1,127,218
Maturities	(13,486)	(14,842)	(28,328)
Disposals	(303,213)	(551,779)	(854,992)
Fair value losses recorded in:			
Profit or loss (note 20)	-	(22,477)	(22,477)
Other comprehensive income	(18,614)	-	(18,614)
Allowance for impairment losses (note 20)	(4,932)	-	(4,932)
Accretion of discounts, net of amortisation of premiums (note 18)	3,825	2,299	6,124
Unrealised exchange gain	-	3,682	3,682
Movement in accrued interest	938	241	1,179
At 31 December 2011 / 1 January 2012	<u>2,263,027</u>	<u>656,565</u>	<u>2,919,592</u>
Purchases	564,853	594,131	1,158,984
Maturities	(85,008)	(15,921)	(100,929)
Disposals	(341,690)	(534,243)	(875,933)
Fair value gains recorded in:			
Profit or loss (note 20)	-	17,025	17,025
Other comprehensive income	37,613	-	37,613
Allowance for impairment losses (note 20)	(5,503)	-	(5,503)
Accretion of discounts, net of amortisation of premiums (note 18)	2,940	403	3,343
Unrealised exchange loss	-	(3,387)	(3,387)
Movement in accrued interest	1,649	212	1,861
At 31 December 2012	<u>2,437,881</u>	<u>714,785</u>	<u>3,152,666</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****9 INSURANCE RECEIVABLES**

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Due premiums including agents' balances	28,919	28,187	25,514
Due from reinsurers and cedants	122	-	117
	<u>29,041</u>	<u>28,187</u>	<u>25,631</u>
Allowance for impairment loss	(1,046)	(1,064)	(1,119)
	<u>27,995</u>	<u>27,123</u>	<u>24,512</u>
Receivable within 12 months	<u>27,995</u>	<u>27,123</u>	<u>24,512</u>

**10 SHARE CAPITAL**

	<u>2012</u>		<u>2011</u>	
	Number of shares '000	Nominal value RM'000	Number of shares '000	Nominal value RM'000
Authorised:				
Ordinary shares of 50 sen each:				
At 1 January / 31 December	<u>1,000,000</u>	<u>500,000</u>	<u>1,000,000</u>	<u>500,000</u>
Issued and fully paid up:				
Ordinary shares of 50 sen each:				
At 1 January / 31 December	<u>300,000</u>	<u>150,000</u>	<u>300,000</u>	<u>150,000</u>

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

**11 RESERVES**

	Note	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
<u>Non-distributable:</u>				
Fair value reserve	(i)	27,437	19,112	19,475
Retained earnings	(ii)	71,719	120,469	146,930
<u>Distributable:</u>				
Retained earnings	(iii)	<u>270,047</u>	<u>174,965</u>	<u>112,644</u>
		<u>369,203</u>	<u>314,546</u>	<u>279,049</u>

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****11 RESERVES (CONTINUED)**

- (i) Fair value reserve is in respect of fair value gains or losses on available-for-sale financial assets, net of deferred tax, held by the Non-participating life fund and Shareholders' fund.
- (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 Non-participating life fund to Shareholders' fund by the Appointed Actuary.
- (iii) Under the single tier system, there are no restrictions on the Company to frank the payment of dividends out of its entire retained earnings as at the date of the statement of financial position.

**12 INSURANCE CONTRACT LIABILITIES**

	Gross			Net		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Actuarial liabilities	2,138,525	2,196,472	1,922,955	2,138,525	2,196,472	1,922,955
Unallocated surplus	63,224	(98,163)	66,739	63,224	(98,163)	66,739
Fair value reserve	169,522	143,438	159,227	169,522	143,438	159,227
Investment-linked policyholders' account	432,416	366,032	399,348	432,416	366,032	399,348
	<u>2,803,687</u>	<u>2,607,779</u>	<u>2,548,269</u>	<u>2,803,687</u>	<u>2,607,779</u>	<u>2,548,269</u>
Current	674,226	408,113	638,719	674,226	408,113	638,719
Non-current	2,129,461	2,199,666	1,909,550	2,129,461	2,199,666	1,909,550
	<u>2,803,687</u>	<u>2,607,779</u>	<u>2,548,269</u>	<u>2,803,687</u>	<u>2,607,779</u>	<u>2,548,269</u>

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

	Gross		Net	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January	2,607,779	2,548,269	2,607,779	2,548,269
Inforce reserve movement	79,399	87,675	79,399	87,675
New business reserve	(4,704)	(12,452)	(4,704)	(12,452)
Discount rate and other changes	(132,642)	198,294	(132,642)	198,294
Unallocated surplus	161,387	(164,902)	161,387	(164,902)
Investment-linked policyholders' account	66,384	(33,316)	66,384	(33,316)
Fair value reserve, net of tax	26,084	(15,789)	26,084	(15,789)
At 31 December	<u>2,803,687</u>	<u>2,607,779</u>	<u>2,803,687</u>	<u>2,607,779</u>

With the Non-participating life fund's unallocated surplus and fair value reserve being reclassified from insurance contract liabilities to equity effective 1 January 2011, only the associated Participating life fund's unallocated surplus and fair value reserve are included in the above presentation.

During the year, the Company refined certain parameters of assumptions used for its actuarial liabilities valuation. The change resulted in lower actuarial liabilities of RM167.1 million for the year ended 31 December 2012, with a corresponding increase in unallocated surplus for the Participating life fund and net profit before tax of RM158.3 million and RM8.8 million, respectively.

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 13 INSURANCE CLAIMS LIABILITIES

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Provision for outstanding claims	<u>36,133</u>	<u>35,371</u>	<u>28,885</u>
Current	<u><u>36,133</u></u>	<u><u>35,371</u></u>	<u><u>28,885</u></u>

#### 14 DEFERRED TAX LIABILITIES

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

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Presented after appropriate offsetting as follows:			
Deferred tax liabilities	<u>47,571</u>	<u>59,714</u>	<u>73,406</u>
Current	39,393	27,956	17,574
Non-current	<u>8,178</u>	<u>31,758</u>	<u>55,832</u>
	<u><u>47,571</u></u>	<u><u>59,714</u></u>	<u><u>73,406</u></u>

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 14 DEFERRED TAX LIABILITIES (CONTINUED)

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

	Unallocated surplus	Revaluation - Investment properties	Accelerated depreciation	Revaluation - Investment	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Deferred tax (liabilities)/assets</b>					
At 1 January 2011	(48,977)	(283)	(321)	(23,825)	(73,406)
<u>Recognised in:</u>					
Profit or loss:					
- Other operating expenses (note 23)	-	(107)	(71)	2,587	2,409
Taxation (note 24)	8,821	-	-	-	8,821
Other comprehensive income	-	-	-	2,462	2,462
At 31 December 2011/1 January 2012	(40,156)	(390)	(392)	(18,776)	(59,714)
<u>Recognised in:</u>					
Profit or loss:					
- Other operating expenses (note 23)	-	(21)	357	(1,274)	(938)
Taxation (note 24)	16,250	-	55	(20)	16,285
Other comprehensive income	-	-	-	(3,204)	(3,204)
At 31 December 2012	(23,906)	(411)	20	(23,274)	(47,571)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****15 INSURANCE PAYABLES**

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Due to reinsurers and cedants	2,342	1,983	1,614
Due to agents	5,138	5,192	4,145
Due to insureds	341,196	321,286	288,355
	<u>348,676</u>	<u>328,461</u>	<u>294,114</u>
Current	<u>348,676</u>	<u>328,461</u>	<u>294,114</u>

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

**16 OTHER PAYABLES**

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Other creditors	32,316	15,345	21,312
Accrued liabilities	20,271	12,475	20,058
Amount due to immediate holding company	929	6,749	3,738
Amount due to related companies	273	216	1,904
	<u>53,789</u>	<u>34,785</u>	<u>47,012</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.

**17 NET PREMIUMS**

	2012 RM'000	2011 RM'000
First year premium	68,586	61,445
Renewal year premium	428,631	409,083
Single premium	7,650	6,795
	<u>504,867</u>	<u>477,323</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****18 INVESTMENT INCOME**

	2012 RM'000	2011 RM'000
<u>Financial assets at FVTPL - designated upon initial recognition</u>		
Interest/profit sharing income	15,531	14,654
Dividend income	8,311	7,077
Accretion of discounts, net of amortisation of premiums (note 8(c))	403	2,299
<u>AFS financial assets</u>		
Interest income	65,202	58,464
Dividend income	24,727	20,263
Accretion of discounts, net of amortisation of premiums (note 8(c))	2,940	3,825
<u>Loans and receivables</u>		
Interest/profit income	23,783	26,240
Accretion of discounts, net of amortisation of premiums	2,312	2,201
<u>Investment properties</u>		
Rental income	4,029	3,874
<u>Cash and cash equivalents</u>		
Interest/profit sharing income	608	1,330
	<u>147,846</u>	<u>140,227</u>

**19 NET REALISED GAINS**

	2012 RM'000	2011 RM'000
<b>Property and equipment</b>		
Realised gains/(losses)	9	(4)
<b>AFS financial assets</b>		
<u>Realised gains:</u>		
Equity securities - quoted in Malaysia	65,840	47,274
Debt securities	412	2,659
<u>Realised losses:</u>		
Equity securities - quoted in Malaysia	-	(56)
Debt securities	(76)	-
Total net realised gains for AFS financial assets	<u>66,176</u>	<u>49,877</u>
Total net realised gains	<u>66,185</u>	<u>49,873</u>



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

**20 NET FAIR VALUE GAINS/(LOSSES)**

	2012 RM'000	2011 RM'000
<b>Investment properties</b>		
Unrealised fair value gains (note 5)	<u>264</u>	<u>1,755</u>
<b>Financial assets at FVTPL – designated upon initial recognition</b>		
<u>Fair value gains</u>		
Realised	23,943	19,500
Unrealised (note 8(c))	21,135	3,050
<u>Fair value losses</u>		
Realised	-	(4,377)
Unrealised (note 8(c))	(4,110)	(25,527)
Net fair value gains/(losses) on financial assets at FVTPL – designated upon initial recognition	<u>40,968</u>	<u>(7,354)</u>
<b>AFS financial assets</b>		
Impairment losses on quoted equities (note 8(c))	<u>(5,503)</u>	<u>(4,932)</u>
Total net fair value gains/(losses)	<u><u>35,729</u></u>	<u><u>(10,531)</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****21 MANAGEMENT EXPENSES**

	2012 RM'000	2011 RM'000
Staff costs (note 21(a))	24,567	18,463
Directors' remuneration: (note 21(b))		
- Fees	139	45
- Other emoluments	1,224	1,760
Auditors' remuneration:		
- Statutory audit	321	308
Office rental payable to:		
- Immediate holding company	737	737
- Others	823	716
Depreciation of property and equipment (note 4)	1,315	1,107
Amortisation of intangible assets (note 6)	61	123
Property and equipment written off (note 4)	49	127
Reversal of allowance for impairment loss	(18)	(55)
Credit card charges	2,018	1,987
Fund management expenses	1,801	1,539
Information technology outsourcing expenses	8,120	2,815
Marketing and advertising expenses	3,072	1,592
PIDM levy	1,318	1,154
Printing and stationery expenses	1,163	1,008
Postage and courier charges	1,260	1,083
Outsourcing fees	902	989
Other expenses	10,146	8,663
	<u>59,018</u>	<u>44,161</u>

**(a) Staff costs**

	2012 RM'000	2011 RM'000
Staff costs	21,786	16,420
Retirement benefits contributions (i)	2,604	1,958
Share-based payments (ii)	177	85
Total staff costs	<u>24,567</u>	<u>18,463</u>

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

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

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****21 MANAGEMENT EXPENSES (CONTINUED)**

## (b) Directors' remuneration

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

	2012 RM'000	2011 RM'000
<u>Executive director:</u>		
Salaries	547	864
Bonus	141	319
Contribution to defined contribution plan	35	61
Share options expenses	-	58
Gratuity	68	-
RSU expenses	196	169
Benefits in kind	220	256
	<u>1,207</u>	<u>1,727</u>
<u>Non-executive directors:</u>		
Fees	139	45
Meeting allowances	17	33
	<u>156</u>	<u>78</u>
 Total	 <u>1,363</u>	 <u>1,805</u>
 <u>Represented by:</u>		
Directors' fees	139	45
Directors' emoluments	1,004	1,504
Benefits in kind	220	256
	<u>1,363</u>	<u>1,805</u>

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

	Number of directors	
	2012	2011
<u>Executive director:</u>		
RM100,001- RM1,800,000	<u>2</u>	<u>1</u>
 <u>Non-executive directors:</u>		
Below RM25,000	<u>9</u>	<u>9</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****21 MANAGEMENT EXPENSES (CONTINUED)**

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

	2012 RM'000	2011 RM'000
Salaries	547	864
Bonus	141	319
Contribution to defined contribution plan	35	61
Share options expenses	-	58
Gratuity	68	-
RSU expenses	196	169
Benefits in kind	220	256
	<u>1,207</u>	<u>1,727</u>

**22 SHARE-BASED PLAN**

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

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

		2012 RM'000	2011 RM'000
Share option expenses	(i)	-	58
RSU expenses	(ii)	<u>373</u>	<u>254</u>
		<u>373</u>	<u>312</u>

**(i) Equity-settled share-based compensation**

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

**(ii) Cash-settled share-based compensation**

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

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 23 OTHER OPERATING EXPENSES

	2012 RM'000	2011 RM'000
Foreign exchange losses	3,572	-
Interest on agent's bond withheld	31	41
Others	1,176	159
Tax expense on investment income of Life fund and Investment-linked funds:		
- Current tax**	12,962	11,842
- Deferred tax (note 14)	938	(2,409)
	13,900	9,433
	18,679	9,633

The income tax for the Life fund and Investment-linked funds of the insurance business is calculated based on the tax rate of 8% (2011: 8%) of the assessable investment income, net of allowable deductions for the financial year.

\*\* Included in the current tax is tax refundable from Inland Revenue Board of Malaysia ("IRB") in relation to a court ruling in favour of the Company amounting to RM3.1 million (2011: Nil).

#### 24 TAXATION

	2012 RM'000	2011 RM'000
<u>Current tax</u>		
Current financial year	24,813	13,843
Under/(over) provision in prior financial years	2,199	(456)
	27,012	13,387
<u>Deferred tax</u>		
Current financial year (note 14)	(16,285)	(8,821)
	10,727	4,566

The current income tax for the Company is calculated based on the tax rate of 25% (2011: 25%) of the estimated assessable profit for the financial year.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****24 TAXATION (CONTINUED)**

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

	2012 RM'000	2011 RM'000
Profit before taxation	<u>57,059</u>	<u>40,426</u>
Taxation at Malaysia statutory tax rate of 25% (2011: 25%)	14,265	10,106
Section 110B tax credit set off	(6,116)	(5,063)
Income not subject to tax	(417)	(130)
Expenses not deductible for tax purposes	<u>796</u>	<u>109</u>
	8,528	5,022
Under/(over) provision in prior financial years	<u>2,199</u>	<u>(456)</u>
Tax expense	<u>10,727</u>	<u>4,566</u>

**25 BASIC EARNINGS PER SHARE**

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

	2012	2011
Profit attributable to ordinary equity holders (RM'000)	46,332	35,860
Weighted average number of shares in issue ('000)	300,000	300,000
Basic earnings per share (sen)	<u>15.44</u>	<u>11.95</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 has not been presented.

Basic earnings per share (sen) for the prior year was restated due to the transition from FRS to MFRS as disclosed in note 2(a)(i). The corresponding impact to basic earnings per share as disclosed in note 32.

**26 DIVIDENDS**

Since the end of the previous financial year, no dividend payment has been made in respect of the financial year ended 31 December 2011.

The directors recommend the payment of a first and final single tier dividend of 66.67 sen per share, amounting to RM200,010,004 in respect of the financial year ended 31 December 2012, which is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****27 ADJUSTMENTS FOR NON-CASH ITEMS**

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

	2012 RM'000	2011 RM'000
Life fund surplus after taxation	213,571	104,016
Transfer of Life fund surplus to profit or loss	(43,747)	(28,717)
Interest income	(105,124)	(100,688)
Dividend income	(33,038)	(27,340)
Rental income	(4,029)	(3,874)
Accretion of discounts, net of amortisation premium	(5,655)	(8,325)
(Gain)/loss on disposal of property and equipment	(9)	4
Gains on disposal of AFS financial assets	(66,176)	(49,877)
Fair value gains on investment properties	(264)	(1,755)
Fair value (gains)/losses on FVTPL financial assets	(40,968)	7,354
Impairment losses on AFS financial assets	5,503	4,932
Depreciation of property and equipment	1,315	1,107
Property and equipment written off	49	127
Reversal of allowance for impairment loss on insurance receivables	(18)	(55)
Tax on investment income of Life fund and Investment-linked funds	13,900	9,433
Amortisation of intangible assets	61	123
Taxation	10,727	4,566
Unrealised exchange losses/(gains)	3,387	(3,682)
	<u>(50,515)</u>	<u>(92,651)</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****28 SIGNIFICANT RELATED PARTY DISCLOSURES****Identity of related parties**

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

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

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

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

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****28 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)****Significant related party transactions**

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

	2012 RM'000	2011 RM'000
<b>Intermediate holding company</b>		
Reimbursement of software maintenance expenses	474	408
Reimbursement of personnel expenses	2,648	1,353
<b>Subsidiaries of ultimate holding company</b>		
Rental income	(470)	(482)
Outsourced information technology service expenses	3,734	2,815
Outsourcing fee for health service call centre and administrative service	437	458
<b>Subsidiaries of the holding company</b>		
Outsourcing fee income	(132)	(132)
Rental income	(332)	(431)
Fund management fee expenses	6,418	7,088
Management fees and maintenance charges	99	99
<b>Immediate holding company</b>		
Outsourcing fee expenses	1,034	1,121
Rental expenses	743	743

**Key management personnel**

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

	2012 RM'000	2011 RM'000
Salaries and other short-term employee benefits	5,279	4,073
Retirement benefits contribution (i)	51	152
Share options expenses (ii)	-	58
RSU expenses (ii)	373	254
	<u>5,703</u>	<u>4,537</u>

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

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

**Significant related party balances**

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

	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Loans and receivables (note 7)			
- Amount due from related companies	280	174	281
Other payables (note 16)			
- Amount due to immediate holding company	929	6,749	3,738
- Amount due to related companies	273	216	1,904
	<u>1,202</u>	<u>6,965</u>	<u>5,642</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****29 FINANCIAL INSTRUMENTS****(a) Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:

- i) Available-for-sale ("AFS");
- ii) Fair value through profit or loss - designated upon initial recognition ("FVTPL");
- iii) Loans and receivables excluding prepayments ("LAR"); and
- iv) Other financial liabilities measured at amortised cost ("OL").

	AFS	FVTPL	LAR	OL	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31 December 2012</b>					
<b>Financial assets</b>					
Loans and receivables	-	-	546,663	-	546,663
AFS financial assets	2,437,881	-	-	-	2,437,881
FVTPL financial assets	-	714,785	-	-	714,785
Reinsurance assets	-	-	3,268	-	3,268
Insurance receivables	-	-	27,995	-	27,995
Cash and cash equivalents	-	-	30,430	-	30,430
	<u>2,437,881</u>	<u>714,785</u>	<u>608,356</u>	<u>-</u>	<u>3,761,022</u>
<b>Financial liabilities</b>					
Insurance contract liabilities	-	-	-	2,803,687	2,803,687
Insurance claims liabilities	-	-	-	36,133	36,133
Insurance payables	-	-	-	348,676	348,676
Other payables	-	-	-	53,789	53,789
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,242,285</u>	<u>3,242,285</u>
<b>31 December 2011</b>					
<b>Financial assets</b>					
Loans and receivables	-	-	494,183	-	494,183
AFS financial assets	2,263,027	-	-	-	2,263,027
FVTPL financial assets	-	656,565	-	-	656,565
Reinsurance assets	-	-	3,021	-	3,021
Insurance receivables	-	-	27,123	-	27,123
Cash and cash equivalents	-	-	24,260	-	24,260
	<u>2,263,027</u>	<u>656,565</u>	<u>548,587</u>	<u>-</u>	<u>3,468,179</u>
<b>Financial liabilities</b>					
Insurance contract liabilities	-	-	-	2,607,779	2,607,779
Insurance claims liabilities	-	-	-	35,371	35,371
Insurance payables	-	-	-	328,461	328,461
Other payables	-	-	-	34,785	34,785
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,006,396</u>	<u>3,006,396</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****29 FINANCIAL INSTRUMENTS (CONTINUED)****(a) Categories of financial instruments (continued)**

<b>1 January 2011</b>	AFS	FVTPL	LAR	OL	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>					
Loans and receivables	-	-	540,097	-	540,097
AFS financial assets	2,037,181	-	-	-	2,037,181
FVTPL financial assets	-	673,551	-	-	673,551
Reinsurance assets	-	-	2,368	-	2,368
Insurance receivables	-	-	24,512	-	24,512
Cash and cash equivalents	-	-	89,657	-	89,657
	<u>2,037,181</u>	<u>673,551</u>	<u>656,634</u>	<u>-</u>	<u>3,367,366</u>
<b>Financial liabilities</b>					
Insurance contract liabilities	-	-	-	2,548,269	2,548,269
Insurance claims liabilities	-	-	-	28,885	28,885
Insurance payables	-	-	-	294,114	294,114
Other payables	-	-	-	47,012	47,012
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,918,280</u>	<u>2,918,280</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 approximation of their fair values due to the relatively short term maturity of these balances;
- (ii) The fair values of quoted equities are based on quoted market prices as at the reporting date;
- (iii) The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate debt securities are based on indicative market prices;
- (iv) The fair values of negotiable instrument of deposits are calculated using the discounted cash flow method based on the maturity of the instruments at discount rates representing the average market rates quoted by at least two licensed banks;
- (v) The fair values of equity call options are based on the fair value quoted by a counter party based on a specific valuation model as at the reporting date; and
- (vi) The fair values of investments in real estate investment trusts, mutual funds and unit trust funds are based on the net asset values of the underlying funds as at the reporting date.

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****29 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****29 FINANCIAL INSTRUMENTS (CONTINUED)****(c) Fair value hierarchy (continued)**

The following table presents the Company's financial assets that are carried at fair value as at 31 December 2012.

	Carrying amount	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	RM'000
<b>31 December 2012</b>				
<b>AFS financial assets</b>				
Equity securities				
- Quoted in Malaysia	679,002	679,002	-	-
- Unquoted	1,944	-	-	1,944
Unit trust funds	90,010	90,010	-	-
Malaysian Government Securities	726,006	-	726,006	-
Government Investment Issues	145,725	-	145,725	-
Corporate debt securities				
- Unquoted	780,776	-	780,776	-
Accrued interest	14,418	-	14,418	-
	<u>2,437,881</u>	<u>769,012</u>	<u>1,666,925</u>	<u>1,944</u>
<b>FVTPL financial assets</b>				
Equity securities				
- Quoted in Malaysia	249,107	249,107	-	-
- Quoted outside Malaysia	2,575	2,575	-	-
Malaysian Government Securities	130,712	-	130,712	-
Government Investment Issues	21,478	-	21,478	-
Corporate debt securities				
- Unquoted	217,294	-	217,294	-
Mutual funds				
- Quoted outside Malaysia	90,700	90,700	-	-
Accrued interest	2,919	-	2,919	-
	<u>714,785</u>	<u>342,382</u>	<u>372,403</u>	<u>-</u>
	<u>3,152,666</u>	<u>1,111,394</u>	<u>2,039,328</u>	<u>1,944</u>

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****29 FINANCIAL INSTRUMENTS (CONTINUED)****(c) Fair value hierarchy (continued)**

	Carrying amount	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	RM'000
<b>31 December 2011</b>				
<b>AFS financial assets</b>				
Equity securities				
- Quoted in Malaysia	660,610	660,610	-	-
- Unquoted	1,944	-	-	1,944
Real estate investment trusts				
- Quoted in Malaysia	1,467	1,467	-	-
Unit trust funds	82,830	82,830	-	-
Malaysian Government Securities	632,887	-	632,887	-
Government Investment Issues	97,109	-	97,109	-
Corporate debt securities				
- Unquoted	773,411	-	773,411	-
Accrued interest	12,769	-	12,769	-
	<u>2,263,027</u>	<u>744,907</u>	<u>1,516,176</u>	<u>1,944</u>
<b>FVTPL financial assets</b>				
Equity securities				
- Quoted in Malaysia	203,037	203,037	-	-
Malaysian Government Securities	140,807	-	140,807	-
Government Investment Issues	18,338	-	18,338	-
Corporate debt securities				
- Unquoted	201,571	-	201,571	-
Mutual funds				
- Quoted outside Malaysia	90,105	90,105	-	-
Accrued interest	2,707	-	2,707	-
	<u>656,565</u>	<u>293,142</u>	<u>363,423</u>	<u>-</u>
	<u>2,919,592</u>	<u>1,038,049</u>	<u>1,879,599</u>	<u>1,944</u>

**MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****29 FINANCIAL INSTRUMENTS (CONTINUED)****(c) Fair value hierarchy (continued)**

	Carrying amount	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	RM'000
<b>1 January 2011</b>				
<b>AFS financial assets</b>				
Equity securities				
- Quoted in Malaysia	618,305	618,305	-	-
- Unquoted	1,944	-	-	1,944
- Quoted in Malaysia	-	-	-	-
Unit trust funds	81,765	81,765	-	-
Malaysian Government Securities	522,447	-	522,447	-
Government Investment Issues	84,777	-	84,777	-
Corporate debt securities				
- Unquoted	716,112	-	716,112	-
Accrued interest	11,831	-	11,831	-
	<u>2,037,181</u>	<u>700,070</u>	<u>1,335,167</u>	<u>1,944</u>
<b>FVTPL financial assets</b>				
Equity securities				
- Quoted in Malaysia	188,983	188,983	-	-
Malaysian Government Securities	116,315	-	116,315	-
Government Investment Issues	15,270	-	15,270	-
Corporate debt securities				
- Unquoted	196,712	-	196,712	-
Equity call options				
- Unquoted	5,723	-	5,723	-
Mutual funds				
- Quoted outside Malaysia	102,709	102,709	-	-
Negotiable instrument of deposits	45,373	-	45,373	-
Accrued interest	2,466	-	2,466	-
	<u>673,551</u>	<u>291,692</u>	<u>381,859</u>	<u>-</u>
	<u>2,710,732</u>	<u>991,762</u>	<u>1,717,026</u>	<u>1,944</u>

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT**

##### **(a) Risk management framework**

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

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

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

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

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

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



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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

##### **(a) Risk management framework (continued)**

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

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

##### **(b) Regulatory framework**

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

##### **(c) Capital management**

The Company manages its capital with the following objectives:

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

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 RISK MANAGEMENT (CONTINUED)

##### (c) Capital management (continued)

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

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

The capital structure of the Company as at 31 December 2012, as prescribed under the Framework is as follows:

	31.12.2012	31.12.2011	01.01.2011
	RM'000	RM'000	RM'000
<b>Eligible Tier 1 Capital</b>			
Share capital (paid-up)	150,000	150,000	150,000
Retained earnings of the Company*	270,047	174,965	112,644
Eligible contract liabilities	725,550	727,402	905,286
	<u>1,145,597</u>	<u>1,052,367</u>	<u>1,167,930</u>
<b>Eligible Tier 2 Capital</b>			
Eligible reserves	197,398	162,550	178,702
Amounts deducted from capital	-	(487)	-
<b>Total Capital Available</b>	<u>1,342,995</u>	<u>1,214,430</u>	<u>1,346,632</u>

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

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 RISK MANAGEMENT (CONTINUED)

##### (d) Insurance risk

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

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

The Company also limits its exposure to loss within the insurance operations through participation in reinsurance arrangement. For insurance contracts issued in 2012, the Company retains a maximum of RM300,000 for mortality risk per life, 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, facultative reinsurance and catastrophe treaties. The Company is neither dependent on a single reinsurer at this moment nor are the operations of the Company is substantially dependent upon any reinsurance contract.

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

	Gross			Net		
	31.12.2012	31.12.2011	01.01.2011	31.12.2012	31.12.2011	01.01.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Whole life	683,325	647,338	485,654	683,325	647,338	485,654
Endowment	319,405	280,201	223,456	319,405	280,201	223,456
Term	26,499	38,774	23,515	26,499	38,774	23,515
Annuity	192,669	174,139	164,784	192,669	174,139	164,784
Others	916,627	1,056,020	1,025,546	916,627	1,056,020	1,025,546
	<u>2,138,525</u>	<u>2,196,472</u>	<u>1,922,955</u>	<u>2,138,525</u>	<u>2,196,472</u>	<u>1,922,955</u>

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**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

**30 RISK MANAGEMENT (CONTINUED)**

**(d) Insurance risk (continued)**

**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.

	<u>Change in assumptions</u> %	Impact on gross actuarial <u>liabilities</u> RM'000	Impact on net actuarial <u>liabilities</u> RM'000	Impact on <u>profit before tax</u> RM'000	Impact on <u>equity</u> RM'000
<b>31 December 2012</b>					
Mortality/morbidity	+10	14,444	14,444	(14,444)	(11,411)
Discount rate	-1	35,587	35,587	(35,587)	(28,114)
Expenses	+10	6,394	6,394	(6,394)	(5,051)
Lapse and surrender rates	+10	1,300	1,300	(1,300)	(1,027)
<b>31 December 2011</b>					
Mortality/morbidity	+10	14,299	14,299	(14,299)	(11,296)
Discount rate	-1	40,528	40,528	(40,528)	(32,017)
Expenses	+10	7,752	7,752	(7,752)	(6,124)
Lapse and surrender rates	+10	990	990	(990)	(782)
<b>1 January 2011</b>					
Mortality/morbidity	+10	13,496	13,496	(13,496)	(10,662)
Discount rate	-1	32,573	32,573	(32,573)	(25,733)
Expenses	+10	5,938	5,938	(5,938)	(4,691)
Lapse and surrender rates	+10	2,754	2,754	(2,754)	(2,176)

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

##### **(d) Insurance risk (continued)**

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 fund within the range of changes in assumptions as the participating nature of the Participating life fund gives 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 investment activities is monitored regularly with respect to single customer limit, exposure to sector type, credit rating and remaining term to maturity, according to the guidelines and limits approved by the Board and within the guidelines issued by BNM.

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

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

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

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

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

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

##### **(e) Credit risk (continued)**

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.

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 RISK MANAGEMENT (CONTINUED)

##### (e) Credit risk (continued)

31 December 2012	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					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>AFS financial assets</u>							
Equity securities	-	-	680,946	-	-	-	680,946
Real estate investment trusts	-	-	-	-	-	-	-
Unit trust funds	-	-	90,010	-	-	-	90,010
Malaysian Government Securities	-	726,006	-	-	-	-	726,006
Government Investment Issues	-	145,725	-	-	-	-	145,725
Corporate debt securities	456,814	323,962	-	-	-	-	780,776
Accrued interest	3,850	10,568	-	-	-	-	14,418
<u>Financial assets at FVTPL - designated upon initial recognition</u>							
Equity securities	-	-	-	-	-	251,682	251,682
Malaysian Government Securities	-	127,718	-	-	-	2,994	130,712
Government Investment Issues	-	20,976	-	-	-	502	21,478
Corporate debt securities	103,433	55,154	-	-	-	58,707	217,294
Mutual funds	-	-	-	-	-	90,700	90,700
Accrued interest	886	1,576	-	-	-	457	2,919
<u>Loans and receivables</u>							
Fixed and call deposits	163,610	-	-	-	-	53,400	217,010
Loans receivable	-	312,535	-	42	356	-	312,933
Other receivables	-	13,936	-	-	-	2,965	16,901
Reinsurance assets	2,685	583	-	-	-	-	3,268
Insurance receivables	-	27,978	-	-	1,063	-	29,041
Cash and cash equivalents	27,918	-	-	-	-	2,512	30,430
Allowance for impairment losses	-	-	-	-	(1,227)	-	(1,227)
	<u>759,196</u>	<u>1,766,717</u>	<u>770,956</u>	<u>42</u>	<u>192</u>	<u>463,919</u>	<u>3,761,022</u>

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 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					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31 December 2011</b>							
<u>AFS financial assets</u>							
Equity securities	-	-	662,554	-	-	-	662,554
Real estate investment trusts	-	-	1,467	-	-	-	1,467
Unit trust funds	-	-	82,830	-	-	-	82,830
Malaysian Government Securities	-	632,887	-	-	-	-	632,887
Government Investment Issues	-	97,109	-	-	-	-	97,109
Corporate debt securities	469,617	303,794	-	-	-	-	773,411
Accrued interest	3,433	9,336	-	-	-	-	12,769
Financial assets at FVTPL - <u>designated upon initial recognition</u>							
Equity securities	-	-	-	-	-	203,037	203,037
Malaysian Government Securities	-	136,824	-	-	-	3,983	140,807
Government Investment Issues	-	18,338	-	-	-	-	18,338
Corporate debt securities	97,170	48,785	-	-	-	55,616	201,571
Mutual funds	-	-	-	-	-	90,105	90,105
Accrued interest	609	1,618	-	-	-	480	2,707
<u>Loans and receivables</u>							
Fixed and call deposits	139,734	-	-	-	-	20,938	160,672
Loans receivable	-	326,141	-	109	362	-	326,612
Other receivables	-	4,159	-	-	-	2,921	7,080
Reinsurance assets	2,547	474	-	-	-	-	3,021
Insurance receivables	-	27,117	-	-	1,070	-	28,187
Cash and cash equivalents	23,193	-	-	-	-	1,067	24,260
Allowance for impairment losses	-	-	-	-	(1,245)	-	(1,245)
	<u>736,303</u>	<u>1,606,582</u>	<u>746,851</u>	<u>109</u>	<u>187</u>	<u>378,147</u>	<u>3,468,179</u>



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## MANULIFE INSURANCE BERHAD

(Incorporated in Malaysia)

### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 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					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>1 January 2011</b>							
<u>AFS financial assets</u>							
Equity securities	-	-	620,249	-	-	-	620,249
Unit trust funds	-	-	81,765	-	-	-	81,765
Malaysian Government Securities	-	522,447	-	-	-	-	522,447
Government Investment Issues	-	84,777	-	-	-	-	84,777
Corporate debt securities	453,822	262,290	-	-	-	-	716,112
Accrued interest	3,548	8,283	-	-	-	-	11,831
Financial assets at FVTPL							
- <u>designated upon initial recognition</u>							
Equity securities	-	-	-	-	-	188,983	188,983
Malaysian Government Securities	-	113,336	-	-	-	2,979	116,315
Government Investment Issues	-	15,270	-	-	-	-	15,270
Corporate debt securities	100,499	50,756	-	-	-	45,457	196,712
Equity call options	-	-	-	-	-	5,723	5,723
Mutual funds	-	-	-	-	-	102,709	102,709
Negotiable instrument of deposits	-	-	-	-	-	45,373	45,373
Accrued interest	609	1,447	-	-	-	410	2,466
<u>Loans and receivables</u>							
Fixed and call deposits	154,791	-	-	-	-	12,471	167,262
Loans receivable	-	353,207	-	3,083	578	265	357,133
Other receivables	-	7,009	-	-	-	8,874	15,883
Reinsurance assets	1,943	425	-	-	-	-	2,368
Insurance receivables	-	24,502	-	-	1,129	-	25,631
Cash and cash equivalents	87,741	-	-	-	-	1,916	89,657
Allowance for impairment losses	-	-	-	-	(1,300)	-	(1,300)
	<u>802,953</u>	<u>1,443,749</u>	<u>702,014</u>	<u>3,083</u>	<u>407</u>	<u>415,160</u>	<u>3,367,366</u>

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**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

**30 RISK MANAGEMENT (CONTINUED)**

**(e) Credit risk (continued)**

Age analysis of financial assets past-due but not impaired

	<u>&lt; 30 days</u> RM'000	<u>31 to 60 days</u> RM'000	<u>61 to 90 days</u> RM'000	<u>91 to 180 days</u> RM'000	<u>Over 180 days</u> RM'000	<u>Total</u> RM'000
<u>31 December 2012</u>						
Loans receivable	-	-	-	-	42	42
<u>31 December 2011</u>						
Loans receivable	-	42	60	7	-	109
<u>1 January 2011</u>						
Loans receivable	-	48	-	3,035	-	3,083

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

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

	Loans receivable RM'000	Insurance receivables RM'000	Total RM'000
At 1 January 2011	181	1,119	1,300
Reversal of allowance for impairment loss during the financial year	-	(55)	(55)
At 31 December 2011	<u>181</u>	<u>1,064</u>	<u>1,245</u>
At 1 January 2012	181	1,064	1,245
Reversal of allowance for impairment loss during the financial year	-	(18)	(18)
At 31 December 2012	<u>181</u>	<u>1,046</u>	<u>1,227</u>

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

##### **(f) Market risk**

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

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

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

##### **(i) Currency risk**

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

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

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

**(f) Market risk (continued)**

**(ii) Interest rate risk**

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

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

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 RISK MANAGEMENT (CONTINUED)

##### (f) Market risk (continued)

##### (ii) Interest rate risk (continued)

	Impact on profit before tax		Impact on equity	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Change in variable:				
<u>Interest rate</u>				
+ 100 basis points	<u>6,634</u>	<u>8,700</u>	<u>(8,926)</u>	<u>(4,667)</u>
- 100 basis points	<u>(11,739)</u>	<u>(16,987)</u>	<u>6,508</u>	<u>(566)</u>

The above impact to the Company's equity arose from the Shareholders' fund and Non-participating life fund's investments in fixed income securities, which are classified as available-for-sale financial assets and fair value through profit or loss financial assets, while the impact to the Company's profit before tax arose from fair value through profit or loss financial assets. The impact arising from changes in interest rate risk to fixed income securities of the Participating life fund is retained in the insurance contract liabilities.

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

**(f) Market risk (continued)**

**(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.

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 RISK MANAGEMENT (CONTINUED)

##### (f) Market risk (continued)

##### (iii) Price risk (continued)

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

Change in variable	Impact on profit before tax		Impact on equity	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<u>Market price</u>				
+15%	-	-	17,954	16,907
-15%	-	-	(17,954)	(16,907)

The above impact to the Company's equity arose from the Non-participating life fund and Shareholders' fund investments in equity securities which are classified as AFS financial assets. The impact arising from changes in price risk to equity securities of the Participating life fund is retained in the insurance contract liabilities.



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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

##### **(g) Liquidity risk**

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

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

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

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

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

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 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
<b>31 December 2012</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Equity securities	932,628	-	-	-	-	680,946	251,682	932,628
Malaysian Government Securities	856,718	40,189	84,649	92,855	1,038,285	-	2,994	1,258,972
Government Investment Issues	167,203	6,672	38,506	20,723	140,372	-	502	206,775
Corporate debt securities	998,070	117,919	232,030	229,717	606,547	-	58,707	1,244,920
Unit trust funds	90,010	-	-	-	-	90,010	-	90,010
Mutual funds	90,700	-	-	-	-	-	90,700	90,700
Accrued interest								
- AFS financial assets	14,418	14,418	-	-	-	-	-	14,418
- FVTPL financial assets	2,919	2,462	-	-	-	-	457	2,919
Loans receivable	312,752	309,946	327	325	2,154	-	-	312,752
Fixed and call deposits	217,010	111,856	314	60,128	-	-	53,400	225,698
Other receivables	16,901	13,546	-	-	390	-	2,965	16,901
Reinsurance assets	3,268	3,268	-	-	-	-	-	3,268
Insurance receivables	27,995	27,995	-	-	-	-	-	27,995
Cash and cash equivalents	30,430	27,918	-	-	-	-	2,512	30,430
<b>Total assets</b>	<b>3,761,022</b>	<b>676,189</b>	<b>355,826</b>	<b>403,748</b>	<b>1,787,748</b>	<b>770,956</b>	<b>463,919</b>	<b>4,458,386</b>
Insurance contract liabilities	2,803,687	304,513	248,710	241,167	4,779,535	-	432,417	6,006,342
Insurance claims liabilities	36,133	36,133	-	-	-	-	-	36,133
Insurance payables	348,676	348,676	-	-	-	-	-	348,676
Other payables	53,789	38,085	-	-	-	-	15,704	53,789
<b>Total liabilities</b>	<b>3,242,285</b>	<b>727,407</b>	<b>248,710</b>	<b>241,167</b>	<b>4,779,535</b>	<b>-</b>	<b>448,121</b>	<b>6,444,940</b>

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 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
<b>31 December 2011</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Equity securities	865,591	-	-	-	-	662,554	203,037	865,591
Real estate investment trusts	1,467	-	-	-	-	1,467	-	1,467
Malaysian Government Securities	773,694	24,480	78,501	90,969	950,622	-	3,983	1,148,555
Government Investment Issues	115,447	3,902	13,462	39,504	84,667	-	-	141,535
Corporate debt securities	974,982	136,793	231,676	245,043	532,352	-	55,616	1,201,480
Unit trust funds	82,830	-	-	-	-	82,830	-	82,830
Mutual funds	90,105	-	-	-	-	-	90,105	90,105
Accrued interest								
- AFS financial assets	12,769	12,769	-	-	-	-	-	12,769
- FVTPL financial assets	2,707	2,227	-	-	-	-	480	2,707
Loans receivable	326,431	323,536	104	161	2,630	-	-	326,431
Fixed and call deposits	160,672	90,292	314	60,285	-	-	20,938	171,829
Other receivables	7,080	3,769	-	-	390	-	2,921	7,080
Reinsurance assets	3,021	3,021	-	-	-	-	-	3,021
Insurance receivables	27,123	27,123	-	-	-	-	-	27,123
Cash and cash equivalents	24,260	23,193	-	-	-	-	1,067	24,260
<b>Total assets</b>	<b>3,468,179</b>	<b>651,105</b>	<b>324,057</b>	<b>435,962</b>	<b>1,570,661</b>	<b>746,851</b>	<b>378,147</b>	<b>4,106,783</b>
Insurance contract liabilities	2,607,779	94,142	200,146	321,691	5,185,878	-	366,032	6,167,889
Insurance claims liabilities	35,371	35,371	-	-	-	-	-	35,371
Insurance payables	328,461	328,461	-	-	-	-	-	328,461
Other payables	34,785	26,541	-	-	-	-	8,244	34,785
<b>Total liabilities</b>	<b>3,006,396</b>	<b>484,515</b>	<b>200,146</b>	<b>321,691</b>	<b>5,185,878</b>	<b>-</b>	<b>374,276</b>	<b>6,566,506</b>

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## MANULIFE INSURANCE BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

#### 30 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
1 January 2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Equity securities	809,232	-	-	-	-	620,249	188,983	809,232
Malaysian Government Securities	638,762	29,909	70,664	100,440	738,607	-	2,979	942,599
Government Investment Issues	100,047	3,429	8,258	30,486	83,792	-	-	125,965
Corporate debt securities	912,824	42,172	296,506	197,660	556,790	-	45,457	1,138,585
Unit trust funds	81,765	-	-	-	-	81,765	-	81,765
Mutual funds	102,709	-	-	-	-	-	102,709	102,709
Negotiable instrument of deposits	45,373	-	-	-	-	-	45,373	45,373
Equity call options	5,723	-	-	-	-	-	5,723	5,723
Accrued interest income								
- AFS financial assets	11,831	11,831	-	-	-	-	-	11,831
- FVTPL financial assets	2,466	2,056	-	-	-	-	410	2,466
Loans receivable	356,952	340,825	15,221	154	487	-	265	356,952
Fixed and call deposits	167,262	108,672	314	314	60,128	-	12,471	181,899
Other receivables	15,883	7,009	-	-	-	-	8,874	15,883
Reinsurance assets	2,368	2,368	-	-	-	-	-	2,368
Insurance receivables	24,512	24,512	-	-	-	-	-	24,512
Cash and cash equivalents	89,657	87,741	-	-	-	-	1,916	89,657
<b>Total assets</b>	<b>3,367,366</b>	<b>660,524</b>	<b>390,963</b>	<b>329,054</b>	<b>1,439,804</b>	<b>702,014</b>	<b>415,160</b>	<b>3,937,519</b>
Insurance contract liabilities	2,548,269	279,791	122,267	301,128	5,013,838	-	399,348	6,116,372
Insurance claims liabilities	28,885	28,885	-	-	-	-	-	28,885
Insurance payables	294,114	294,114	-	-	-	-	-	294,114
Other payables	47,012	38,416	-	-	-	-	8,596	47,012
<b>Total liabilities</b>	<b>2,918,280</b>	<b>641,206</b>	<b>122,267</b>	<b>301,128</b>	<b>5,013,838</b>	<b>-</b>	<b>407,944</b>	<b>6,486,383</b>

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## **MANULIFE INSURANCE BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **30 RISK MANAGEMENT (CONTINUED)**

##### **(h) Operational risk**

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

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****31 INSURANCE FUNDS**

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

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

Statement of Financial Position by Funds

31 December 2012	Shareholders' fund	Insurance funds		Elimination	Total
		Life fund	Investment-linked funds		
Assets	RM'000	RM'000	RM'000	RM'000	RM'000
Property and equipment	-	9,597	-	-	9,597
Investment properties	-	48,897	-	-	48,897
Loans and receivables	234,895	475,664	56,365	(219,561)	547,363
Available-for-sale financial assets	320,602	2,127,865	-	(10,586)	2,437,881
Fair value through profit or loss financial assets	-	309,743	405,042	-	714,785
Reinsurance assets	-	3,268	-	-	3,268
Insurance receivables	-	27,995	-	-	27,995
Cash and cash equivalents	4,204	23,714	2,512	-	30,430
<b>Total assets</b>	<b>559,701</b>	<b>3,026,743</b>	<b>463,919</b>	<b>(230,147)</b>	<b>3,820,216</b>
<b>Equity, Policyholders' Funds and Liabilities</b>					
Share capital	150,000	-	-	-	150,000
Retained earnings	341,766	-	-	-	341,766
Other reserves	27,877	-	-	(440)	27,437
<b>Total equity</b>	<b>519,643</b>	<b>-</b>	<b>-</b>	<b>(440)</b>	<b>519,203</b>
Insurance contract liabilities	-	2,371,271	442,416	(10,000)	2,803,687
Insurance claims liabilities	-	36,133	-	-	36,133
Deferred tax liabilities	27,912	16,157	3,648	(146)	47,571
Insurance payables	-	348,676	-	-	348,676
Current tax liabilities	10,971	(1,965)	2,151	-	11,157
Other payables	1,175	256,471	15,704	(219,561)	53,789
<b>Total equity, policyholders' funds and liabilities</b>	<b>559,701</b>	<b>3,026,743</b>	<b>463,919</b>	<b>(230,147)</b>	<b>3,820,216</b>

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****31 INSURANCE FUNDS (CONTINUED)**Statement of Financial Position by Funds (continued)

31 December 2011	Shareholders' fund	Insurance funds		Elimination	Total
		Life fund	Investment-linked funds		
<b>Assets</b>	RM'000	RM'000	RM'000	RM'000	RM'000
Property and equipment	-	9,415	-	-	9,415
Investment properties	-	48,633	-	-	48,633
Intangible assets	-	61	-	-	61
Loans and receivables	249,288	453,355	23,859	(231,986)	494,516
Available-for-sale financial assets	261,353	2,001,674	-	-	2,263,027
Fair value through profit or loss financial assets	-	303,344	353,221	-	656,565
Reinsurance assets	-	3,021	-	-	3,021
Insurance receivables	-	27,123	-	-	27,123
Current tax assets	3,704	1,786	(1,455)	-	4,035
Cash and cash equivalents	1,179	22,014	1,067	-	24,260
<b>Total assets</b>	<b>515,524</b>	<b>2,870,426</b>	<b>376,692</b>	<b>(231,986)</b>	<b>3,530,656</b>
<b>Equity, Policyholders' Funds and Liabilities</b>					
Share capital	150,000	-	-	-	150,000
Retained earnings	295,434	-	-	-	295,434
Other reserves	19,112	-	-	-	19,112
<b>Total equity</b>	<b>464,546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>464,546</b>
Insurance contract liabilities	-	2,241,747	366,032	-	2,607,779
Insurance claims liabilities	-	35,371	-	-	35,371
Deferred tax liabilities	43,574	13,724	2,416	-	59,714
Insurance payables	-	328,461	-	-	328,461
Other payables	7,404	251,123	8,244	(231,986)	34,785
<b>Total equity, policyholders' funds and liabilities</b>	<b>515,524</b>	<b>2,870,426</b>	<b>376,692</b>	<b>(231,986)</b>	<b>3,530,656</b>

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****31 INSURANCE FUNDS (CONTINUED)**Statement of Financial Position by Funds (continued)

1 January 2011	Shareholders' fund	Insurance funds			Elimination	Total
		Life fund	Investment-linked funds			
<b>Assets</b>	RM'000	RM'000	RM'000	RM'000	RM'000	
Property and equipment	-	4,583	-	-	4,583	
Investment properties	-	51,215	-	-	51,215	
Intangible assets	-	184	-	-	184	
Loans and receivables	285,922	503,198	21,610	(270,193)	540,537	
Available-for-sale financial assets	201,747	1,835,434	-	-	2,037,181	
Fair value through profit or loss financial assets	-	281,917	391,634	-	673,551	
Reinsurance assets	-	2,368	-	-	2,368	
Insurance receivables	-	24,512	-	-	24,512	
Cash and cash equivalents	913	86,828	1,916	-	89,657	
<b>Total assets</b>	<b>488,582</b>	<b>2,790,239</b>	<b>415,160</b>	<b>(270,193)</b>	<b>3,423,788</b>	
<b>Equity, Policyholders' Funds and Liabilities</b>						
Share capital	150,000	-	-	-	150,000	
Retained earnings	259,574	-	-	-	259,574	
Other reserves	19,475	-	-	-	19,475	
<b>Total equity</b>	<b>429,049</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>429,049</b>	
Insurance contract liabilities	-	2,148,921	399,348	-	2,548,269	
Insurance claims liabilities	-	28,885	-	-	28,885	
Deferred tax liabilities	52,414	16,654	4,338	-	73,406	
Insurance payables	-	294,114	-	-	294,114	
Current tax liabilities	1,860	(1,685)	2,878	-	3,053	
Other payables	5,259	303,350	8,596	(270,193)	47,012	
<b>Total equity, policyholders' funds and liabilities</b>	<b>488,582</b>	<b>2,790,239</b>	<b>415,160</b>	<b>(270,193)</b>	<b>3,423,788</b>	



**MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****31 INSURANCE FUNDS (CONTINUED)**Statement of Comprehensive Income by Funds

2012	Shareholders' fund	Insurance funds		Elimination	Total
		Life fund	Investment- linked funds		
	RM'000	RM'000	RM'000	RM'000	RM'000
Premium income					
Gross premiums	-	404,882	120,484	(10,000)	515,366
Premiums ceded to reinsurers	-	(10,499)	-	-	(10,499)
Net premiums	-	394,383	120,484	(10,000)	504,867
Fee and commission income	-	5,084	-	(5,084)	-
Investment income	12,502	123,393	11,951	-	147,846
Net realised gains	3,399	62,786	-	-	66,185
Net fair value (losses)/ gains	(187)	(2,643)	38,559	-	35,729
Other operating income	-	83	850	-	933
<b>Total revenue</b>	<b>15,714</b>	<b>583,086</b>	<b>171,844</b>	<b>(15,084)</b>	<b>755,560</b>
Gross benefits and claims paid	-	(293,962)	(81,324)	-	(375,286)
Claims ceded to reinsurers	-	5,715	-	-	5,715
Gross change in contract liabilities	-	(103,440)	(76,384)	10,000	(169,824)
<b>Net claims</b>	<b>-</b>	<b>(391,687)</b>	<b>(157,708)</b>	<b>10,000</b>	<b>(539,395)</b>
Fee and commission expenses	-	(73,231)	-	-	(73,231)
Investment expenses	(676)	(7,502)	-	-	(8,178)
Management expenses	(520)	(56,614)	(6,968)	5,084	(59,018)
Other operating expenses	(1,206)	(10,305)	(7,168)	-	(18,679)
<b>Other expenses</b>	<b>(2,402)</b>	<b>(147,652)</b>	<b>(14,136)</b>	<b>5,084</b>	<b>(159,106)</b>
Profit from operations	13,312	43,747	-	-	57,059
Transfer from/(to) revenue account	43,747	(43,747)	-	-	-
<b>Profit before taxation</b>	<b>57,059</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,059</b>
Taxation	(10,727)	-	-	-	(10,727)
<b>Net profit for the financial year</b>	<b>46,332</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,332</b>

**MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****31 INSURANCE FUNDS (CONTINUED)**Statement of Comprehensive Income by Funds (continued)

2011	Shareholders' fund RM'000	Insurance funds		Elimination RM'000	Total RM'000
		Life fund RM'000	Investment- linked funds RM'000		
Premium income					
Gross premiums	-	393,982	93,923	-	487,905
Premiums ceded to reinsurers	-	(10,582)	-	-	(10,582)
Net premiums	-	383,400	93,923	-	477,323
Fee and commission income	-	4,420	-	(4,420)	-
Investment income	10,284	118,295	11,648	-	140,227
Net realised gains	2,572	47,301	-	-	49,873
Other operating income	1	32	4,538	-	4,571
<b>Total revenue</b>	<b>12,857</b>	<b>553,448</b>	<b>110,109</b>	<b>(4,420)</b>	<b>671,994</b>
Gross benefits and claims paid	-	(296,702)	(126,154)	-	(422,856)
Claims ceded to reinsurers	-	3,857	-	-	3,857
Gross change in contract liabilities	-	(108,615)	33,316	-	(75,299)
<b>Net claims</b>	<b>-</b>	<b>(401,460)</b>	<b>(92,838)</b>	<b>-</b>	<b>(494,298)</b>
Fee and commission expenses	-	(65,464)	-	-	(65,464)
Net fair value (losses)/gains	(218)	522	(10,835)	-	(10,531)
Investment expenses	(567)	(6,914)	-	-	(7,481)
Management expenses	(323)	(41,737)	(6,521)	4,420	(44,161)
Other operating expenses	(40)	(9,678)	85	-	(9,633)
<b>Other expenses</b>	<b>(1,148)</b>	<b>(123,271)</b>	<b>(17,271)</b>	<b>4,420</b>	<b>(137,270)</b>
Profit from operations	11,709	28,717	-	-	40,426
Transfer from/(to) revenue account	28,717	(28,717)	-	-	-
<b>Profit before taxation</b>	<b>40,426</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,426</b>
Taxation	(4,566)	-	-	-	(4,566)
<b>Net profit for the financial year</b>	<b>35,860</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,860</b>

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

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****31 INSURANCE FUNDS (CONTINUED)**Information on cash flows by Funds

2012	Shareholders' fund	Insurance funds		Total
		Life fund	Investment- linked funds	
	RM'000	RM'000	RM'000	RM'000
<b>Cash flows from:</b>				
Operating activities	3,025	3,275	1,445	7,745
Investing activities	-	(1,575)	-	(1,575)
Net increase in cash and cash equivalents	3,025	1,700	1,445	6,170
At beginning of financial year	1,179	22,014	1,067	24,260
At end of financial year	4,204	23,714	2,512	30,430

2011	Shareholders' fund	Insurance funds		Total
		Life fund	Investment- linked funds	
	RM'000	RM'000	RM'000	RM'000
<b>Cash flows from:</b>				
Operating activities	266	(63,081)	(849)	(63,664)
Investing activities	-	(1,733)	-	(1,733)
Net increase/(decrease) in cash and cash equivalents	266	(64,814)	(849)	(65,397)
At beginning of financial year	913	86,828	1,916	89,657
At end of financial year	1,179	22,014	1,067	24,260

**MANULIFE INSURANCE BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)****32 EFFECTS OF TRANSITION FROM FRS TO MFRS**

MFRS 1 requires an entity to reconcile equity, total comprehensive income and cash flows for prior periods. The following table represents the reconciliations from FRS to MFRS for the respective periods arising from transition elections as disclosed in note 2(a)(i) on equity and total comprehensive income. The transition from FRS to MFRS has had no effect on the reconciliation of equity and total comprehensive income of the Company and on the reported cash flows generated by the Company except for the following:

	Note	As previously reported "FRS" RM'000	Adjustments RM'000	As restated "MFRS" RM'000
<b>Statement of financial position</b>				
<u>As at 1 January 2011</u>				
<u>Equity</u>				
Retained earnings	(i)	112,644	146,930	259,574
Fair value reserve	(i)	10,310	9,165	19,475
<u>Liabilities</u>				
Insurance contract liabilities	(i)	2,753,341	(205,072)	2,548,269
Deferred tax liabilities	(ii)	24,429	48,977	73,406
<u>As at 31 December 2011</u>				
<u>Equity</u>				
Retained earnings	(i)	174,965	120,469	295,434
Fair value reserve	(i)	10,252	8,860	19,112
<u>Liabilities</u>				
Insurance contract liabilities	(i)	2,777,264	(169,485)	2,607,779
Deferred tax liabilities	(ii)	19,558	40,156	59,714
<b>Statement of comprehensive income</b>				
<u>For financial year ended</u>				
<u>31 December 2011</u>				
Total comprehensive income		62,263	(26,766)	35,497
Comprise of the following transitional adjustments:				
Other operating income	(i)	1,786	2,785	4,571
Gross change in contract liabilities	(i)	(37,383)	(37,916)	(75,299)
Other operating expenses	(i)	(9,482)	(151)	(9,633)
Taxation	(ii)	(13,387)	8,821	(4,566)
Net loss on fair value change of available-for-sale financial assets	(i)	(58)	(305)	(363)
Basic earnings per share (sen)		20.77	(8.82)	11.95

Company No.

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## **MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**

#### **32 EFFECTS OF TRANSITION FROM FRS TO MFRS (CONTINUED)**

The transition from FRS to MFRS has had no effect on the reconciliation of equity and total comprehensive income of the Company and on the reported cash flows generated by the Company except for the following: (continued)

- (i) reclassification of unallocated surplus and fair value reserve (net of deferred tax) of Non-participating life fund previously held within insurance contract liabilities to non-distributable retained earnings and fair value reserve respectively as of 1 January 2011;  
currency translation reserve arising from the translation of Investment-linked funds' assets and liabilities that have a functional currency other than Ringgit Malaysia and recorded in gross change in contract liabilities previously, is now reclassified to other income and operating expenses; and
- (ii) recognition of corresponding deferred tax liabilities on unallocated surplus of Non-participating life fund.

#### **33 AUTHORISATION OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue in accordance with a resolution of the directors on 20 March 2013.

Company No.

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M

## **MANULIFE INSURANCE BERHAD**

(Incorporated in Malaysia)

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

We, Dato' Md Agil bin Mohd Natt and Chew Yee Ming George, two of the directors of Manulife Insurance Berhad, state that, in the opinion of the directors, the financial statements set out on pages 8 to 91 are drawn up so as to give a true and fair view of the state of affairs of the Company at 31 December 2012, and of the results and cash flows of the Company for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 20 March 2013.

**DATO' MD AGIL BIN MOHD NATT**

CHAIRMAN

**CHEW YEE MING GEORGE**

DIRECTOR

Kuala Lumpur

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

I, Tham Kok Yoke, the officer primarily responsible for the financial management of Manulife Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 8 to 91 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

**THAM KOK YOKE**

Subscribed and solemnly declared by the abovenamed Tham Kok Yoke at Kuala Lumpur in Malaysia on 20 March 2013, before me.

**COMMISSIONER FOR OATHS**

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

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of Manulife Insurance Berhad, which comprise the statement of financial position as at 31 December 2012 of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on notes 1 to 33.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

**REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)**

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965 in Malaysia, so as to give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

**OTHER MATTERS**

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

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

SHIRLEY GOH  
(No. 1778/08/14 (J))  
Chartered Accountant

Kuala Lumpur  
20 March 2013