Company No.

814942	**M**

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2018

Company No.

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MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

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(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2018.

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	28,397

DIVIDENDS

Since the end of the previous financial year, the Company paid a first and final single-tier dividend of 33.33 sen per share amounting to RM100,000,000 on 12 June 2018 for the financial year ended 31 December 2017.

RESERVES AND PROVISIONS

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

SHARE CAPITAL

There were no changes in the issued share capital of the Company during the financial year.

PROVISION OF INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework for Insurers as required by Bank Negara Malaysia ("BNM").

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowances for doubtful debts, and satisfied themselves that there were no known bad debts to be written off and that adequate allowance for impairment losses had been made.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

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

Dato' Md Agil bin Mohd Natt
Lee Sang Hui (Appointed on 1 November 2018)
Datuk Seri Panglima Mohd Annuar bin Zaini
Lim Hun Soon @ David Lim
Mark Steven O'Dell (Resigned on 31 October 2018)
Leung Rockson Lok-Shuen (Resigned on 31 October 2018)
Dr. Gopakumar Kurup (Resigned on 31 March 2018)

In accordance with Clause 20.6 of the Constitution of the Company, Datuk Seri Panglima Mohd Annuar bin Zaini shall retire at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Profile of Directors

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

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

Dato' Md Agil bin Mohd Natt, aged 68, a Malaysian, was appointed to the Board on 29 June 2012. He holds a Bachelor of Science in Economics (Hons) degree from Brunel University, London and a Master of Science in Finance degree from the CASS Business School, London. He also attended the Advanced Management Program, Harvard Business School in the United States of America.

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

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

He currently sits on the Boards of Cagamas Berhad, Credit Guarantee Corporation Malaysia Bhd, Sogo (KL) Department Store Sdn Bhd and Sogo (KL) Sdn Bhd. He also sits on the Investment Panel of Employees Provident Fund.

Dato' Md Agil bin Mohd Natt is a member of the Nominating and Remuneration Committee, Risk Management Committee and Audit Committee of the Board of Directors. He is also the Chairman of the Board of Directors of Manulife Asset Management Services Berhad.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Profile of Directors (Continued)

Lee Sang Hui (Appointed on 1 November 2018)
Chief Executive Officer/Executive Director

Mr Lee Sang Hui, aged 50 and an US national, holds a Masters in Business Administration from Thunderbird School of International Management and a Bachelor degree from the University of Colorado in Molecular Cellular Developmental Biology.

Mr Lee has over 27 years of experience in the Life Insurance and Asset Management industries. Prior to his appointment as Group Chief Executive Officer (CEO) of Manulife Holdings Berhad, Mr Lee held various senior management roles in American Life Insurance in Japan before joining AIG/AIA where he had a noteworthy career across Investments, Finance, Marketing and Distribution. Mr Lee is a seasoned international executive with a proven track record of delivering consistent, high quality results across Thailand, Korea, Hong Kong and Japan.

Mr Lee also sits on the Boards of Manulife Holdings Berhad and Manulife Asset Management Services Berhad.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Profile of Directors (Continued)

Datuk Seri Panglima Mohd Annuar bin Zaini
Independent Non-Executive Director

Datuk Seri Panglima Mohd Annuar bin Zaini, aged 68, a Malaysian, was appointed to the Board on 5 July 2011. He holds a Master of Arts in Law & Diplomacy from The Fletcher School of Laws & Diplomacy, Tufts University, USA and a Bachelor of Arts with honours in Economics from University Kebangsaan Malaysia.

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

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

He was Executive Director of Berjaya Corporation Berhad from 2001 to 2004, Chairman of Malaysian National News Agency (BERNAMA) from February 2004 to January 2010, Advisor and Chief Executive of Northern Corridor Implementation Authority from 2007 to 2009, a Board Member of the Royal Perak Medical College from 2005 to 2011, a Board Member of the Malaysian Airline System Berhad from 2005 to 2011 and a Board Member of PLUS Expressway Berhad from 2007 to 2012 and Tropicana Corporation Berhad from 2010 to 2016.

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Profile of Directors (Continued)

Lim Hun Soon @ David Lim
Independent Non-Executive Director

Mr. Lim Hun Soon @ David Lim, aged 64, a Malaysian, was appointed to the Board on 17 July 2012. He graduated from the University of Leeds with a Bachelor of Arts in Economics in July 1978 and subsequently joined KPMG (formerly known as Peat Marwick Mitchell) in the United Kingdom in 1978. He qualified as a member of the Institute of Taxation, United Kingdom in 1981 and as a member of The Institute of Chartered Accountants in England and Wales (“ICAEW”) in 1982. He then returned to Malaysia in 1982 to continue his service with KPMG where he was admitted in 1984 as a member of the Malaysian Association of Certified Public Accountants. Mr. David Lim was admitted as a Partner of the Firm in 1990.

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

In 2006, he was assigned by KPMG to start up the Malaysian Audit Committee Institute (“ACI Malaysia”), which was a virtual worldwide initiative sponsored by KPMG to assist Independent Non-Executive Directors in enhancing their awareness and ability to implement effective board processes.

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

In July 2013, Mr. David Lim was appointed as a Council Member of the ICAEW representing South East Asia (Malaysia). His appointment represents a huge accolade for Malaysia, as it’s the first time in ICAEW’s sterling 130 years history, a Malaysian is represented on ICAEW’s Council. In 2015, his term was renewed for a second term of two years. Mr David Lim appointment was extended for a third term of two years from 2017 till 2019.

Mr. David Lim sits on the Board of a few public listed companies, namely Sasbadi Holdings Berhad, Kawan Food Berhad, Ranhill Holdings Berhad and Press Metal Aluminium Holdings Berhad as an Independent Non-Executive Director. He also sits on the Board of Affin Investment Berhad (In Members’ Voluntary Winding-up), Affin Hwang Investment Bank Berhad, Rockwills Trustee Berhad, Fairview Schools Berhad and a few private limited companies.

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

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Directors' Training

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

The training programmes and seminars attended by the directors during the financial year ended 31 December 2018 are, inter-alia, on areas relating to corporate governance, risk management, role of an effective Board, insurance, banking and finance. The conferences, seminars and training programmes attended by the directors during the financial year ended 31 December 2018 are as follows:

Financial and Capital Market
- IFRS Regional Workshop: IFRS 17 Insurance Contract
- Blockchain in Financial Services Industry by IBM
- Anti-Money Laundering (AMLA) Training
- Affin Hwang Capital Conference series 2018: Rebuilding a New Malaysia
- 3rd ASEAN Insurance Summit- the 4th Industrial Revolution and its impact on the ASEAN insurance industry
- World Capital Markets Symposium

Role of an Effective Board
- FIDE FORUM DIALOGUE: Navigating the VUCA World (1st Distinguished Board Leadership Series)
- FIDE FORUM: Dialogue with Senior Officials of Bank Negara Malaysia - discuss the emerging and future challenges of Directors of Financial Institutions (FIs) in Malaysia
- ADEC GM Development – Skill Building Programme – Negotiation Skill
- Leading Leaders – Immersion Experience
- The Director as Coach – Talk by Dr Marshall Goldsmith
- Leadership Energy Summit Asia

Corporate Governance (including audit, risk management and internal control)
- Managing Cyber Risks In Financial Institutions, FIDE
- Beyond Compliance: Achieving Cyber Resiliency (Moving from compliance focused to robust readiness)
- Understanding Liquidity Risk Management in Banking
- Governance, Risk and Control - Embracing The Future
- Affin Bank Group Board of Directors and Management Training: Risk, Challenges & Vulnerabilities Towards Regulatory Compliance
- Exim Bank Anti-Money Laundering Course

Others
- MIA-ICAEW Complimentary Talk: Artificial Intelligence and The Future of Accountancy
- 5th BNM-Fide Forum Annual Dialogue: Up Close with the Deputy Governor of BNM
- FIDE FORUM – IBM Think Malaysia
- Win the Innovation Race, by Professor Roy Chua.
- Forum on Blockchain
- EPF Social Security Seminar
- Performance Measurement by Bank Negara Malaysia/World Bank

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Directors' Training (Continued)

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than benefits disclosed as directors' remuneration and benefits in note 24 and note 31 to the financial statements) by reason of a contract made by the Company or a related company with a director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the Executive Stock Option Plan of the ultimate holding company.

DIRECTORS' INTERESTS

No directors in office at the end of the financial year held any interest in the shares in the Company or its related corporations.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE

Board Meeting

There were six (6) Board Meetings held during the year. The details of attendance of the Directors are as follows:-

Name of Board of Directors	Designation
Dato' Md Agil bin Mohd Natt	Chairman/Independent Non-Executive Director
Lee Sang Hui (appointed on 1 November 2018)	Chief Executive Officer/Executive Director
Mark Steven O'Dell (resigned on 31 October 2018)	Chief Executive Officer/Executive Director
Leung Rockson Lok-Shuen (resigned on 31 October 2018)	Executive Director
Datuk Seri Panglima Mohd Annuar bin Zaini	Independent Non-Executive Director
Lim Hun Soon @ David Lim	Independent Non-Executive Director
Dr. Gopakumar Kurup (resigned on 31 March 2018)	Independent Non-Executive Director

Name of Board of Directors	Attendance
Dato' Md Agil bin Mohd Natt	6 out of 6 meetings
Lee Sang Hui	1 out of 1 meeting
Mark Steven O'Dell	5 out of 5 meetings
Leung Rockson Lok-Shuen	3 out of 5 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	6 out of 6 meetings
Lim Hun Soon @ David Lim	6 out of 6 meetings
Dr. Gopakumar Kurup	1 out of 2 meetings

Board responsibility and oversight

The Board of Directors ("the Board") has generally complied with BNM's Minimum Standards for Corporate Governance (BNM/RH/PD/029-9). As at the date of this report, the Board comprises three (3) independent non-executive directors and one (1) executive director to enable a balanced and objective consideration of issues, hence facilitating optimal decision-making.

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

1. Providing clear objectives and policies within which the Senior Management of the Company is to operate.
2. Ensuring that there are adequate controls and systems in place to facilitate the implementation of the Company's policies.
3. Monitoring Management's success in implementing the approved strategies, plans and budget within the approved risk appetites.
4. Understanding the principal risks of all aspects of the businesses in which the Company is engaged in, setting of risk appetites, and ensuring that systems are in place to effectively monitor and manage these risks with a view to the long-term viability and success of the Company.
5. Monitoring and assessing development which may affect the Company's strategic plans.
6. Reviewing the adequacy and the integrity of the Company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
7. Avoiding conflicts of interest and ensuring appropriate disclosure of possible conflicts of interest.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board responsibility and oversight (Continued)

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

8. Upholding and observing banking and relevant laws, rules and regulations.

9. The Board has adopted a schedule of matters specifically reserved for its approval which include, among others, reviewing and approving the following:-

   (i) Strategic/business plans and annual budget.
   (ii) New investments, divestments, mergers and acquisitions, corporate restructuring, including the establishment of subsidiaries, joint ventures or strategic alliances both locally and abroad.
   (iii) Acquisition and disposal of significant assets of the Company.
   (iv) Annual and interim financial statements before publishing to the Company's website and submission to BNM.
   (v) Appointment of new Directors, CEO and other senior management positions based on recommendations of the Nominating/Remuneration Committee.
   (vi) Related party transactions and capital financing.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Committees

During the financial year, the Company had set-up the following Committees instead of using the services of the Board Committees of the immediate holding company, Manulife Holding Berhad:-

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

Nominating/Remuneration Committee

The members of the Nominating/Remuneration Committee as at 31 December 2018 are as follows:

Name	Designation
Datuk Seri Panglima Mohd Annuar bin Zaini	Chairman/Independent Non-Executive Director
Lim Hun Soon @ David Lim	Member/Independent Non-Executive Director
Dato' Md Agil bin Mohd Natt	Member/Independent Non-Executive Director

A total of five (5) Nominating/Remuneration Committee Meetings were held on 19 July 2018, 20 August 2018, 24 October 2018, 21 November 2018 and 27 November 2018, for the financial year ended 31 December 2018. The attendance of the Nominating/Remuneration Committee members are as follows:-

Name of Members	Attendance
Datuk Seri Panglima Mohd Annuar bin Zaini	5 out of 5 meetings
Lim Hun Soon @ David Lim	4 out of 5 meetings
Dato' Md Agil bin Mohd Natt	5 out of 5 meetings

For the financial year ended 31 December 2018, the Nominating/Remuneration Committee has undertaken the following activities:

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Committees (Continued)

Risk Management Committee

The members of the Risk Management Committee as at 31 December 2018 are as follows:-

Name	Designation
Lim Hun Soon @ David Lim	Chairman/Independent Non-Executive Director
Datuk Seri Panglima Mohd Annuar bin Zaini	Member/Independent Non-Executive Director
Dato' Md Agil bin Mohd Natt	Member/Independent Non-Executive Director
Leung Rockson Lok-Shuen (resigned on 31 October 2018)	Member/Non-Independent Non-Executive Director

A total of three (3) Risk Management Committee Meetings were held on 21 May 2018, 16 August 2018 and 19 November 2018, for the financial year ended 31 December 2018. The attendance of the Risk Management Committee members are as set out as follows:-

Name of Members	Attendance
Lim Hun Soon @ David Lim	3 out of 3 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	3 out of 3 meetings
Dato' Md Agil bin Mohd Natt	2 out of 2 meetings
Leung Rockson Lok-Shuen	0 out of 2 meetings

The Risk Management Committee is responsible for:

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

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Committees (Continued)

Audit Committee

The members of the Audit Committee of the Company as at 31 December 2018 are as follows:-

Name	Designation
Lim Hun Soon @ David Lim	Chairman/Independent Non-Executive Director
Datuk Seri Panglima Mohd Annuar bin Zaini	Member/Independent Non-Executive Director
Dato' Md Agil bin Mohd Natt	Member/Independent Non-Executive Director
Dr. Gopakumar Kurup (resigned on 31 March 2018)	Member/Independent Non-Executive Director

A total of five (5) Audit Committee Meetings were held on 21 February 2018, 19 March 2018, 21 May 2018, 16 August 2018 and 19 November 2018, for the financial year ended 31 December 2018. The attendance of the Audit Committee members are set out as follows:-

Name of Members	Attendance
Lim Hun Soon @ David Lim	5 out of 5 meetings
Datuk Seri Panglima Mohd Annuar bin Zaini	5 out of 5 meetings
Dato' Md Agil bin Mohd Natt	3 out of 3 meetings
Dr. Gopakumar Kurup	2 out of 2 meetings

The main duties and responsibilities of the Audit Committee are to review audit issues concerning internal control and risk management identified by the internal auditors, external auditors and regulatory examiners. The Audit Committee annually reviews and approves the audit plan and budget to ensure that the Internal Audit function operates effectively. The Audit Committee reviews and verifies the related party transactions and conflicts of interest entered into by the Company and recommends the same to the Board for approval and consideration.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Key Internal Control and Risk Management Process

Enterprise Risk Management Framework

The Company has a strong risk management culture which supports its risk management practices. Overall, the Company's Board of Directors is accountable for the oversight of risk management, and delegates this through a governance framework which is centered on the 3 lines of defence model and that includes risk oversight committees, risk managers and risk policies and practices.

The Board provides stewardship and Management oversight to ensure that the Management is qualified and competent. Organisational and procedural controls, and policies and procedures for major activities are reviewed, approved and monitored on a periodic basis.

Senior management directs and oversees the effective management of the Company's institutional operations, which includes developing business objectives, strategies, plans, organisational structure and controls and policies for the Board's review and approval. Senior Management executes and monitors the achievement of the Board approved business objectives, strategies, and plans, the effectiveness of the organisational structure and controls and corporate governance practices, culture and ethics.

The Risk Management Committee ("RMC") meets at least quarterly to review both the key risks identified by Management and plans for the mitigation of these risks. The key risk areas examined are strategic risk, insurance risk, market and liquidity risk, credit risk and operational risk. A formalised risk assessment is conducted quarterly by the respective risk managers, comprising the heads of business units. For the key risks identified, Management action plans are formulated and implemented. The results of the risk assessments are reviewed by the Enterprise Risk Management Committee ("ERM") before they are reported to the Board via the RMC, to ensure that the risk management monitoring is independent.

There is a clearly defined assignment of responsibilities to the Committees of the Board and to Management to provide oversight and governance over the Company's activities. The Board, through its Audit Committee ("AC") and RMC, is responsible for overseeing the Company's management of its principal risks. The Company Chief Executive officer ("CEO') is directly accountable to the Board for all of the Company's risk taking activities and risk management practices. The Board and RMC delegate accountability for risk taking and risk management to the Company CEO. The Company CEO, supported by the Risk Officers and ERM establish risk policies, guide risk-taking activity, monitor material risk exposures, and develop strategic risk management priorities, thereby continuously shaping and promoting our risk culture throughout the Company. The ERM consists of the Company CEO, Company Chief Financial Officer ("CFO"), Chief Counsel & Corporate Officer, Chief Risk Officer, Chief Compliance Officer, Information Risk Officer, Appointed Actuary ("AA") and Chief Marketing Officer & Pricing Officer.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Key Internal Control and Risk Management Process (Continued)

Internal Audit Services Function

The Charter for Audit Services – Malaysia (“AS-Malaysia”) is reviewed and approved by the AC annually.

The scope of Audit Services Asia - Malaysia’ work encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the AC and Senior Management on the adequacy and effectiveness of Manulife’s governance, risk management and internal control processes. Internal audit assessments include evaluating:

- The comprehensiveness, reliability, and integrity of financial and operating information, and the means used to identify, measure, analyze, classify, and report such information;
- The comprehensiveness and appropriateness of policies and procedures;
- The processes that ensure compliance with policies, procedures, laws, and regulations that could have a significant impact on operations, management or financial reporting;
- The means of safeguarding assets against accident, theft, malicious damage or other improper or illegal activities;
- The appropriateness and comprehensiveness of operating standards, the extent to which they are communicated and understood, and whether deviations from standards are identified, analyzed and communicated; and corrective action taken; and
- Consultation and other services related to audit expertise as needs arise.

The annual audit plan is primarily driven by an independent assessment of inherent risk of the common units across the company and includes consideration of external information published by industry groups, and input from management, Committee members, regulators and other stakeholders. The objective of the risk assessment exercise is to focus annual activity on the most important risks faced by Manulife while providing appropriate audit coverage over other areas over time. The progress of the internal audit plan, a summary of internal audit issues and the status of corrective actions performed to address the internal audit issues are reported to the AC when it meets.

The AC reviews audit issues concerning governance, internal controls and risk management as identified by AS-Malaysia, external auditors and regulatory examiners. The AC annually reviews and approves the internal audit plan and budget to ensure the AS-Malaysia’s function operates effectively. The AC meets at least quarterly to review the internal audit reports tabled by AS-Malaysia. Also, the AC has active oversight on AS-Malaysia’s independence and objectivity in relation to their scope of work.

Other Key Internal Controls

There is a detailed and formalised annual business and budget planning process to ensure that the Company’s business objectives are clearly defined. The Board reviews and approves the Company’s business plans. Comprehensive management reports are submitted to the Board as and when it meets throughout the year. The Board monitors the Company’s performance closely and Management promptly follows up on any variances identified.

An annual review of the current and future financial position of the Company’s insurance business is performed by the AA, as guided by Policy document issued by Bank Negara Malaysia’s (BNM/RH/GL/003-17) Financial Condition Report and (BNM/RH/GL/032-12) Risk Based Capital Framework for Insurers. These include annual assessment on various aspects of the Company’s financial condition, quarterly Capital Adequacy Ratio reporting, annual multi-period stress testing and assessing the Company’s insurance business’ ability to withstand various adverse scenarios as part of the capital assessment procedures. Generally the appointment and duties of the AA is in accordance with BNM/RH/STD 029-5 - Appointed Actuary: “Appointment and Duties”.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Key Internal Control and Risk Management Process (Continued)

Other Key Internal Controls (Continued)

The Compliance function ensures that the Company works within the applicable statutory, regulatory and ethical frameworks defined by all applicable laws, regulations and guidelines governing the insurance. The Business Unit Compliance Officer ensures that any compliance-related matters are reported to the Senior Management and the Board promptly. On a half-yearly basis, assessment and monitoring of the legislative compliance to applicable Acts, regulations, internal policies and procedures are carried out to ensure that adequate risk management exists to assist senior management in identifying, addressing and integrating significant legislative or regulatory requirements into the Company's business activities through appropriate internal control procedures and risk management practices.

There are proper processes within the Company for hiring, termination and promotion of staff including continuous training programmes and two (2) reviews conducted at mid-year and year end. In addition, other relevant procedures are in place to ensure that staff are competent, adequately trained in carrying out their roles and responsibilities and focused on achieving the desired results and business objectives. Another key human resource initiative is succession planning. Succession planning is reviewed on an annual basis leveraging on outcomes of the talent review. Key roles are identified in consultation with Senior Management based on its criticality and availability via a robust deliberation process. Identified high potentials are reflected in the succession plans depending on the role, growth opportunity, personal aspirations and mobility.

A comprehensive business continuity management programme is established and updated continuously to reflect changes in the operating environment to provide enterprise-wide planning and arrangements of key resources and procedures that enable the Company to respond to and continue to operate mission-critical business functions, while considering all functions across a broad spectrum of interruptions to the business arising from internal and external events. Various business continuity tests are performed on an annual basis and covering alternate site tests, table top exercises, call tree tests, integrated simulation disaster recovery tests, etc. Results of the tests performed are presented to the Board via the Company CEO reports for their review as part of its oversight role.

The Information Risk Management function has in place, an existing risk assessment process that covers cyber security risk. The assessment is guided by policies and standards in place, in areas such as network security, encryption standards (for data at rest and in transit), operational security, application security, vulnerability management and logical access control.

There are clearly documented authority limits, policies and procedures that underpin the internal control process, e.g. staff integrity, staff competency, checks and balances, segregation of duties, independent checks and verification processes, system access controls and layers of internal transaction authorisation, which are set out in the policies and procedural manuals, guidelines, and directives issued by the Company and updated from time to time.

Risk Policies in Place

The Company's Enterprise Risk Policy sets out the overall ERM framework by defining policies and standards of practice related to risk governance, risk identification, risk measurement, risk monitoring, risk control and mitigation. There are various key risk policies in place to guide specific risk taking and Management activities.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Senior Management and Material Risk Takers

The Company's Senior Management that has company-wide management responsibilities comprised of the following personnel:-

1) Chief Executive Officer
2) Chief Financial Officer
3) Chief Agency Officer
4) Head of Partnership Distribution/Chief Partnership Officer
5) Appointed Actuary*
6) Chief Risk Officer*
7) Chief Compliance Officer*

* Personnel having control function

The Company's Senior Management is also deemed to be Material Risk Takers, who can materially commit or control significant amount of the Company's resources or whose actions are likely to have a significant impact on the Company's risk profile.

Total compensation awarded to the Senior Management (excluding control function) for the financial year is as below:-

Total compensation (RM'000)	Non-Deferred	Deferred			
	Awarded during the year	Granted during the year	Paid during the year	Implicit change in value*	Cumulative outstanding as at 31 December 2018
Fixed remuneration					
• Cash-based	4,570	-	-	-	-
• Shares and share-linked instruments	-	-	-	-	-
• Other	733	-	-	-	-
Variable remuneration					
• Cash-based	730	-	-	-	-
• Shares and share-linked instruments	-	717	982	(1,520)	1,018
• Other	1,630	-	-	-	-
	7,663	**717**	**982**	**(1,520)**	**1,018**

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

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Senior Management and Material Risk Takers (Continued)

Remuneration policy

(a) Compensation philosophy

The Group Nominating/Remuneration Committee of the immediate holding company, Manulife Holdings Berhad, has reviewed and adopted the Manulife Global Compensation Policy ("MFC Global policy") with certain amendments to suit Manulife Holdings Berhad and its subsidiaries, and to align with the Corporate Governance standards of Bursa Malaysia and Bank Negara Malaysia. The Company has adopted the same policy as the Group.

Pay for performance is at the core of the Company's compensation approach. Compensation is tied to the achievement of our short, medium and long-term goals, so that a significant portion of what our executives earn is variable and not guaranteed.

There are five principles guiding every compensation decision:-

(i) Compensation aligned with business strategy
- Incentive compensation is tied to the achievement of key performance measures, prudently balancing time horizons and performance perspectives.
- Performance measures are tied directly to our business strategy and shareholder value.
- Performance share units vest and pay out based on relative and absolute Total Shareholders' Return ("TSR").

(ii) Compensation aligned with long-term shareholder value
- A significant part of our Senior Management's (excluding control function) compensation is directly affected by our share price.
- The annual incentive plan incorporates measures tied to our future success.
- Share ownership guidelines, clawback provisions and stock option exercise restrictions discourage the share recipients from taking undue risk.

(iii) Compensation and performance benchmarked against peer companies
- Executive pay is benchmarked against companies with which we compete for business, capital and talent.

(iv) Compensation aligned with good governance practices
- Our remuneration policy is aligned with the Financial Stability Board's Principles for Sound Compensation Practices and the Corporate Governance standards of Bursa Malaysia and Bank Negara Malaysia.
- Employees must annually certify compliance with the Company's Code of Business Conduct and Ethics.

(v) Compensation aligned with risk management objectives
- Incentive compensation for the heads of control functions of our business is based on measures that are not directly linked to the business they oversee.
- The Company carries out stress tests on compensation plan designs.
- Senior Management compensation may be clawed back for wrongdoing, even when a financial restatement is not required.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Senior Management and Material Risk Takers (Continued)

Remuneration policy (Continued)

(b) Managing compensation risk

Compensation is aligned with the Company's risk appetite and risk management objectives, and discourages inappropriate risk taking.

The Company uses a compensation risk framework to structure how the Company manages the risks associated with the compensation program and the design features that mitigate these risks. The framework includes four categories, which shape the development of our compensation program. The Company assesses the compensation program against the framework every year.

(i) Business Risk

Business risk has two aspects:

- the risk that the compensation program encourages behaviour that is not in line with the Company's business strategy, risk appetite statement and goal of generating long-term shareholder value; and
- the risk that the compensation program discourages the taking of healthy risks.

The Company seeks to manage both aspects of business risk by including performance measures in the incentive plans that align compensation with the Company's business strategy and reflect the impact employees have on performance.

(ii) Talent Risk

Talent risk is the risk that the compensation program will not attract and retain talented employees.

The Company seeks to manage this risk by designing compensation program to be competitive and appealing to the talent.

(iii) Performance Risk

Performance risk is the risk that the compensation program will not motivate employees to maintain high performance standards.

The Company seeks to manage this risk by including appropriate links between pay and performance and designing compensation to optimize business results.

(iv) Compliance and Ethical Risk

Compliance and ethical risk is the risk that the compensation program will encourage employees to engage in questionable, unethical or illegal behaviour.

The Company seeks to manage this risk through strong oversight and control mechanisms, and by structuring the compensation program in a way that minimizes the potential incentive to breach compliance and ethical guidelines.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Senior Management and Material Risk Takers (Continued)

Remuneration policy (Continued)

(c) Mitigating compensation risk

The Company seeks to manage potential risk through the risk management policies, design of the compensation program and proper oversight of the incentive plans, and integrating the consideration of the Company's risk appetite into the incentive plans and performance assessments.

Risk management policies

- Clawbacks – if a Corporate Vice president or above commits fraud, theft, embezzlement or serious misconduct, whether or not there is a financial restatement, Manulife's board can, at its discretion, cancel some or all of his or her vested or unvested incentive awards, and require repayment of incentive awards that have already been paid.
- Share ownership requirements – all executives are required to meet share ownership requirements.
- No hedging – executives and directors are not allowed to use strategies (for example, short selling, or buying or selling a call or put option or other derivatives) to hedge or offset a change in price of Manulife Financial Corporation's shares. This policy is incorporated into our Code of Business Conduct and Ethics. All employees and directors are required to certify compliance with the code every year.

Program design

- Compensation award horizons are appropriately balanced between short, medium and long term.
- Incentive plans include several performance measures, combining various performance scenarios.
- Specific risk control and capital adequacy measures are embedded in the performance share unit awards.
- Incentive plan awards depend on both company performance and total shareholder return (TSR), which links our strategy and risk appetite with improving shareholder outcomes and capital strength.
- Compensation for control functions is not linked to business performance, to promote unbiased oversight and advice to Manulife's senior management and Board of Directors.
- Annual incentives for divisional control function heads providing oversight are not directly linked to the performance of businesses they oversee.

Incentive plan oversight

- Manulife's management resources and compensation committee oversees all incentive plans, including payout distribution, control and monitoring processes and the potential impact they may have on business risk.
- The Nominating/Remuneration Committee of the Company reviews and approves the compensation decisions for Senior Management and Material Risk Taker.

Risk perspective in performance assessment

- Individual risk management objectives are included in annual goals for all senior leaders.
- The Company assesses employees against risk management criteria to make sure that the employees are mindful of the risks inherent in their jobs and are working within the boundaries of the Company's policies and practices, while still providing appropriate incentives for material risk takers to achieve the Company's objectives.
- Performance assessments are expected to reflect how the employee contributed to managing the Company's risk profile within the Company's risk appetite and also take into account any signals from Internal Audit, Compliance or Risk Management highlighting inappropriate actions.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Senior Management and Material Risk Takers (Continued)

Remuneration policy (Continued)

(d) Compensation program

The Senior Management compensation program has six key components:-

Key components	Description of compensation	Details of remuneration
Base Salary	Fixed compensation based on role, performance, qualifications and experience.	Each executive's salary depends on: • qualifications, experience and role • performance in the role • past promotions and career progression • salaries paid for comparable roles at peer companies • salaries of comparable roles within Manulife The Company benchmark salaries and salary ranges at least once a year against comparable roles in peer companies and other executives within the Manulife Group.
Annual incentive • annual cash-based incentive Awarded in February of the following year for the preceding year's performance	Variable compensation designed to reward executives for meeting the Company's objectives and individual performance goals over a calendar year where performance is assessed based on "what" was achieved (contribution) and "how" they were achieved (exhibiting the Company's cultural behaviours). Ties compensation to short-term priorities that will result in sustainable performance over time.	We set a target award for each executive (a percentage of base salary) based on competitive market data and the executive's level. The amount we actually pay depends on a combination of company and individual performance. Company performance objectives are tied to the achievement of performance targets that position the company for future success. Individual performance objectives are aligned with our company strategy and fall into three categories: • business objectives • leadership objectives • risk management objectives

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Senior Management and Material Risk Takers (Continued)

Remuneration policy (Continued)

(d) Compensation program (Continued)

The Senior Mangement compensation program has six key components:- (continued)

Key components	Description of compensation	Details of remuneration
Medium and long-term incentives (Equity-based incentives) • restricted share units • performance share units • stock options Awarded at the beginning of each year to executives. Senior leaders at the Corporate Vice President level and below receive 100% of their award in restricted share units.	Variable compensation designed to reward executives for meeting company objectives and individual performance goals over a multi-year period. Ties compensation to company and share price performance over both the medium and long term. Strengthens retention and reinforces alignment with shareholder value, especially for more senior executives.	The Company sets awards for each executive based on level, contribution, potential and market competitiveness, and benchmark the award levels every year against comparable roles in peer companies. The amount each executive ultimately receives depends on Manulife Group's performance: • the value of restricted share units depends on the price of MFC's common shares at the time of vesting. • the value of performance share units depends on the price of MFC's common shares at the time of vesting, as well as how we perform against internal and relative performance measures that are aligned with our company strategy. • the value of stock options depends on the price of MFC's common shares at the time of grant and when stock options are exercised. The Company do not consider the outstanding value of restricted share units, performance share units and stock options an executive already holds when granting awards.
Pension	Assists our employees as they save for their retirement	The Company offers supplemental defined contribution plan in addition to statutory Employees Provident Fund ("EPF").
Benefits and wellness	Protects and invests in the well-being of our employees	The Company offers group term life, disability, health insurance, dental, optical and wellness and other programmes.
Perquisites	Offers market-competitive benefits	The Company offers perquisites depending on industry/market practice.

The mix of components that make up total target direct compensation for the executives in Senior Management vary by level. The proportion of variable pay increases by level, making the link between pay and performance more pronounced for senior executives, because of the greater influence they have on our results. The combination of different incentive plans ensures that executives consider both the short-term and the long-term impact of their decisions.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Senior Management and Material Risk Takers (Continued)

Remuneration policy (Continued)

(d) Compensation program (Continued)

This combination of components and time horizons helps to drive performance, align executive interests with those of shareholders, provide for competitive pay opportunities and encourage retention. Company performance score is used to adjust variable compensation funding available to be awarded. The exact amount granted is determined through an assessment of individual performance against goals that are tied to the financial and operating results of the Company, including impact on risk culture.

Management accountability

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing policies on executive remuneration. None of the directors and senior management of the Company has, in any circumstances, conflict of interest referred to in the Financial Services Act 2013.

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

Corporate independence

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/018-6) in respect of all its related party undertakings. Necessary disclosures have been made to the Board and where required, the prior approval of the Board has also been obtained.

Public accountability

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

Financial reporting

The Company has maintained proper accounting records and the Company's financial statements are prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and comply with the provisions of the Companies Act, 2016 in Malaysia.

INDEMNITY AND INSURANCE

During the financial year, the indemnity given or insurance effected for any Directors and officers of the Company amounts to RM20,000,000 in aggregate with total annual premium of RM15,019.

There were no indemnity given to, or insurance effected for auditors of the Company during the financial year.

DIRECTORS' REPORT (CONTINUED)

HOLDING COMPANIES

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

AUDITORS AND AUDITORS' REMUNERATION

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

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 27 March 2019.

DATO' MD AGIL BIN MOHD NATT

CHAIRMAN

LEE SANG HUI

DIRECTOR

Kuala Lumpur, Malaysia

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Dato' Md Agil bin Mohd Natt and Lee Sang Hui, being two of the directors of Manulife Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 31 to 113 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 27 March 2019.

DATO' MD AGIL BIN MOHD NATT
CHAIRMAN

LEE SANG HUI
DIRECTOR

Kuala Lumpur, Malaysia

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

I, Tham Kok Yoke (MIA Membership No: 17299), being the officer primarily responsible for the financial management of Manulife Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 31 to 113 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 27 March 2019, before me.

PESURUHJAYA SUMPAH
W641
MOHD IBRAHIM BIN YAAKOB
01 Januari 2019
hingga
31 Disember 2021
MALAYSIA

COMMISSIONER FOR OATHS

Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungun
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814942 M

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Manulife Insurance Berhad, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 31 to 113.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

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

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

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Ahmad Hammami Bin Muhyidin
No. 03313/07/2019 J
Chartered Accountant

Kuala Lumpur, Malaysia
27 March 2019

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
ASSETS			
Property and equipment	4	17,113	17,544
Investment property	5	51,105	51,486
Intangible assets	6	19,823	23,161
Loans and receivables	7	272,020	308,491
Available-for-sale financial assets	8(a)	3,060,316	3,154,566
Financial assets at fair value through profit or loss	8(b)	1,555,566	1,534,670
Reinsurance assets	9	9,508	6,412
Insurance receivables	10	24,344	23,971
Current tax asset		5,258	-
Cash and cash equivalents		54,237	85,828
TOTAL ASSETS		5,069,290	5,206,129
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	11	150,000	150,000
Retained earnings	12	314,737	386,340
Fair value reserve	12	6,183	10,850
TOTAL EQUITY		470,920	547,190
Insurance contract liabilities	13	3,864,705	3,948,040
Insurance claims liabilities	14	55,014	56,489
Financial liability at fair value through profit or loss	15	116	-
Deferred tax liabilities	16	16,879	36,426
Insurance payables	17	557,957	526,936
Current tax liabilities		-	2,409
Other payables	18	103,699	88,639
TOTAL LIABILITIES		4,598,370	4,658,939
TOTAL EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES		5,069,290	5,206,129

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

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Premium income			
Gross premiums		902,443	896,375
Premiums ceded to reinsurers		(47,927)	(38,895)
Net premiums	19	854,516	857,480
Investment income	20	186,141	179,147
Net realised gains	21	36,305	48,670
Net fair value (loss)/gain	22	(211,416)	160,165
Fee income	23	4,412	4,767
Other operating income		2,381	2,175
Total revenue		872,339	1,252,404
Gross benefits and claims paid and payable		(671,041)	(647,404)
Claims ceded to reinsurers		13,790	13,252
Gross change in insurance contract liabilities		5,560	(294,321)
Change in insurance contract liabilities ceded to reinsurers		1,018	(3,213)
Net claims		(650,673)	(931,686)
Fee and commission expenses		(58,825)	(64,241)
Investment expenses		(9,483)	(9,597)
Management expenses	24	(116,645)	(112,957)
Other operating income/(expense)	26	2,231	(81,068)
Other expenses		(182,722)	(267,863)
Profit before taxation		38,944	52,855
Taxation	27	(10,547)	(13,428)
Net profit for the financial year		28,397	39,427
Net profit attributable to:			
Equity holder of the Company		28,397	39,427
Basic and diluted earnings per share (sen)	28	9.47	13.14

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

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Net profit for the financial year		28,397	39,427
Other comprehensive (loss)/income, net of tax:			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:-			
Fair value change of available-for-sale financial assets:			
- Gross fair value change	8(c)	(89,340)	76,264
- Deferred tax	16	6,729	(6,326)
		(82,611)	69,938
Change in insurance contract liabilities arising from unrealised net fair value change	13	77,944	(62,008)
Net (loss)/income		(4,667)	7,930
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(4,667)	7,930
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:-			
Surplus from revaluation of property:			
- Gross surplus from revaluation		169	364
Changes in insurance contract liabilities arising from revaluation of property	13	(169)	(364)
Net income		-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive (loss)/income for the financial year		(4,667)	7,930
Total comprehensive income for the financial year		23,730	47,357
Total comprehensive income attributable to:			
Equity holder of the Company		23,730	47,357

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

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Company	Note	Share capital RM'000	Non-distributable Fair value reserve RM'000	Distributable Retained earnings* RM'000	Total equity RM'000
At 1 January 2017		150,000	2,920	346,913	499,833
Net profit for the financial year		-	-	39,427	39,427
Other comprehensive income for the financial year		-	7,930	-	7,930
Total comprehensive income for the financial year		-	7,930	39,427	47,357
At 31 December 2017/1 January 2018		150,000	10,850	386,340	547,190
Net profit for the financial year		-	-	28,397	28,397
Other comprehensive loss for the financial year		-	(4,667)	-	(4,667)
Total comprehensive (loss)/income for the financial year		-	(4,667)	28,397	23,730
Final dividend for the financial year ended 31 December 2017	29	-	-	(100,000)	(100,000)
At 31 December 2018		150,000	6,183	314,737	470,920

*Included in the retained earnings are surplus from Non-participating life fund of the Company (net of deferred tax) of approximately RM68,652,000 (31 December 2017: RM68,988,000) as further disclosed in note 12. These amounts are only distributable upon the actual recommended transfer from the Non-participating life fund to the Shareholder's fund by the Appointed Actuary.

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

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		28,397	39,427
Adjustments for non-cash items	30	(2,199)	(291,820)
Operating income/(losses) before changes in operating assets and liabilities		26,198	(252,393)
Purchase of investments		(3,108,996)	(2,254,824)
Proceeds from disposal and maturity of investments		2,926,887	2,013,792
Interest income received		123,891	116,470
Dividend income received		60,194	55,516
Rental income received		2,983	4,195
(Increase)/decrease in insurance receivables		(371)	4,811
(Increase)/decrease in reinsurance assets		(3,096)	2,199
Increase in other receivables		(2,106)	(1,145)
Decrease in loans receivable		9,383	10,190
Decrease/(increase) in fixed and call deposits		28,910	(15,821)
(Decrease)/increase in insurance contract liabilities		(5,560)	294,321
(Decrease)/increase in insurance claims liabilities		(1,475)	725
Increase in payables		44,103	52,225
Cash generated from operations		100,945	30,261
Income taxes paid		(31,515)	(33,858)
Net cash inflow/(outflow) from operating activities		69,430	(3,597)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	4	(325)	(1,141)
Purchase of intangible assets	6	(820)	(515)
Proceeds from disposal of property and equipment		124	-
Net cash outflow from investing activities		(1,021)	(1,656)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders		(100,000)	-
Net cash outflow from financing activities		(100,000)	-
Net decrease during the financial year		(31,591)	(5,253)
Cash and cash equivalents at 1 January		85,828	91,081
Cash and cash equivalents at 31 December		54,237	85,828

CASH AND CASH EQUIVALENTS

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

	2018 RM'000	2017 RM'000
Cash and bank balances	45,794	77,367
Short-term deposits*	8,443	8,461
Cash and cash equivalents	54,237	85,828

*Short-term deposits with original maturities of less than 3 months.

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

1. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

General

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

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

Principal activities

The Company is engaged principally in the underwriting of life insurance business. There have been no significant changes in the principal activities of the Company during the financial year.

Registered office and principal place of business

The registered office and principal place of business of the Company is located at 16th Floor, Menara Manulife, 6 Jalan Gelenggang, Damansara Heights, 50490 Kuala Lumpur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in these summary of significant accounting policies, and comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the provisions of the Companies Act, 2016 in Malaysia.

(i) Adoption of new pronouncements in the current year

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new pronouncements effective from 1 January 2018 as follows:

Description	**Effective for annual periods beginning on or after**
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Amendments to MFRS 1 First-Time Adoption of MFRS (Annual Improvements to MFRS Standard 2014-2016 Cycle)	1 January 2018
Amendments to MFRS 4 Insurance Contract Liabilities (Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts)	1 January 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new pronouncements effective from 1 January 2018 as follows: (continued)

Description	**Effective for annual periods beginning on or after**
Amendments to MFRS 128 Investments in Associate and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2018
IC interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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

MFRS 15 Revenue from Contracts with Customers

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

The five-step model is as follows:-

(i) Identify the contract with the customer;
(ii) Identify the performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to each distinct good or service; and
(v) Recognise the revenue.

Applying the five-step model, an entity recognises revenue when (or as) a performance obligation is satisfied and provided to the customer, which is when the customer obtains control over the goods or services provided. The point at which revenue is able to be recognised may shift some revenue which is currently recognised at a point in time at the beginning of the contract or at the end of a contract, to be recognised over the contract term and vice versa.

In addition, an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Any bundled goods or services that are distinct must be separately recognised.

Impact on adoption of MFRS 15

The Company has adopted MFRS 15 on 1 January 2018. The adoption did not have any significant financial impact to the Company's financial results and financial position, as most of the revenue streams of the Company - other than those arising from insurance contracts and financial instruments held, which are scoped out of MFRS 15 – are already recognised in accordance with the principles of MFRS 15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

MFRS 9 Financial Instruments and Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts

MFRS 9 Financial Instruments

In July 2014, the Malaysian Accounting Standards Board ("MASB") issued the final version of MFRS 9 Financial Instruments that replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 is effective for annual periods beginning on or after 1 January 2018. It is equivalent to IFRS 9 as issued by International Accounting Standards Board ("IASB"), including the effective and issuance dates. MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting as discussed below:-

i) Classification and measurement of financial assets

MFRS 9 establishes three primary measurement categories for financial assets: Amortised Cost, Fair Value Through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL"). It eliminates the existing MFRS 139 categories of Available-for-sale ("AFS"), Held-to-Maturity ("HTM") and Loans and Receivables ("LAR"). The basis of classification under MFRS 9 depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Amortised Cost
Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest. On derecognition, gains or losses are recognised in profit or loss.

Fair Value Through Other Comprehensive Income
Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows which are solely payments of principal and interest and selling the financial assets. Gains or losses on FVOCI financial instruments are recognised in Other Comprehensive Income ("OCI"). On derecognition, cumulative gains or losses in OCI are reclassified to profit or loss.

Investments in equity instruments are always measured at FVTPL with an irrevocable option at inception of the Standard to present changes in OCI. However, such option will result in no reclassification of gains or losses to profit or loss upon derecognition but directly to retained earnings. No impairment loss considerations will apply to equity instruments under FVOCI.

Fair Value Through Profit or Loss
Financial assets is classified as FVTPL if the financial assets are held for trading or are managed on a fair value basis (including derivatives). Other financial assets with contractual cash flow that are not solely payments of principal and interest, irregardless of its business model are classified as FVTPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

MFRS 9 Financial Instruments and Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (continued)

MFRS 9 Financial Instruments (continued)

ii) Classification and measurement of financial liabilities

For financial liabilities, MFRS 9 retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the fair value change due to an entity's own credit risk is recognised in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

iii) Impairment

MFRS 9 introduces the Expected Credit Losses ("ECL") model for impairment that replaces the incurred loss impairment model used in MFRS 139. The ECL model requires impairment to be recognised on initial recognition including expected future credit losses incurred as at the reporting date. The ECL model will apply to financial assets measured at Amortised cost or FVOCI, except for investments in equity instruments.

Under MFRS 9, allowance for impairment is made based on the following three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition:

Stage 1: 12-month ECL
For financial assets that have no significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the 12-month ECL which is based on the probability of default events occurring within the next 12 months will be recognised in profit or loss.

Stage 2: Lifetime ECL – Non-credit impaired
For financial assets that have significant increase in credit risks since initial recognition but do not have objective evidence of impairment, a lifetime ECL that is based on results from all possible default events over the expected life of the financial assets will be recognised in profit or loss.

Stage 3: Impairment – Credit impaired
Financial assets are assessed as credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit impaired, impairment will be recognised in profit or loss.

The assessment of credit risk and estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions, forecasts of future events and economic conditions at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

MFRS 9 Financial Instruments and Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (continued)

<u>MFRS 9 Financial Instruments (continued)</u>

iv) Hedge accounting
The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of hedged items for accounting purposes.

<u>Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</u>

In December 2016, the MASB issued Amendments to MFRS 4 to address issues arising from the different effective dates of MFRS 9 and the upcoming new insurance contracts standard (MFRS 17). Amendments to MFRS 4 is issued by the MASB in respect of its application in Malaysia. It is equivalent to the Amendments to IFRS 4 as issued by the IASB.

The amendments introduce two alternative options for entities issuing contracts within the scope of MFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if:

i. It has not previously applied any version of MFRS 9; and

ii. Its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The overlay approach allows an entity applying MFRS 9 to reclassify between profit or loss and other comprehensive income, an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied MFRS 139 to these designated financial assets.

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

<u>*Impact as a result of the adoption of MFRS 9 and Amendments to MFRS 4*</u>

The Company applied the temporary exemption under Amendments to MFRS 4 to defer the adoption of MFRS 9 until 1 January 2021, which is in line with the adoption of MFRS 17 Insurance Contracts, as the Company's activities are predominantly connected with insurance, and on the basis of meeting the predominance "insurance related industry" test under Amendments to MFRS 4, whereby the Company's insurance liabilities is more than 90% of the total Company's liabilities.

The Company will continue to apply the accounting policies under MFRS 139 for both financial year ended 31 December 2017 and 31 December 2018 as set out in note 2(d).

Additional disclosures as required under Amendments to MFRS 4 is included in note 36.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

Description	Effective for annual periods beginning on or after
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
Amendments to MFRS 3 Business Combinations: Definition of Business	1 January 2020
Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. MFRS 16 introduces a single accounting model for a lessee and eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet).

i. Lessee
At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

MFRS 16 Leases (continued)

i. Lessee (continued)
Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

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

Impact as a result of the result of the adoption of MFRS 16

The Company has performed an assessment on the requirements under MFRS 16 and reached the following conclusions:-

The Company will adopt MFRS 16 with effect from 1 January 2019 using the modified retrospective approach, under which no restatement of comparative numbers is required. The Company will elect to apply MFRS 16 to contracts that were previously identified as leases in accordance with MFRS 117 and IFRIC 4. The Company will not apply MFRS 16 to contracts previously identified as not containing leases in accordance with MFRS 117 and IFRIC 4.

The Company will elect to use the exemptions under MFRS 16 on lease contracts with a remaining lease term of 12 months or less as of date of initial application, and lease contracts for which the lease asset is of low value.

As at the date of this report, the Company is at the final stages of completing the financial impact assessment upon initial adoption of MFRS 16.

MFRS 17 Insurance Contract Liabilities

MFRS 17 which was issued in August 2017, will replace MFRS 4 Insurance Contracts. MFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects, from recognition and measurement, presentation and disclosure.

MFRS 17 is effective for annual periods beginning on or after 1 January 2021. The Company plans to adopt the new standard on the required effective date and a Project Steering Committee has been formed to oversee the implementation for MFRS 17. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have significant impact on the total profit and total equity of the Company together with the overall presentation and disclosures in the Company's financial statements.

The Company will continue its implementation plan over the next few years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment (continued)

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

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

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

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

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

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

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

(c) Intangible assets

(i) Exclusive right

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

(ii) Computer software

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments

(i) Classification, recognition and measurement of financial assets

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

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

(1) FVTPL

Financial assets at FVTPL include financial assets held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. For investments designated at fair value through profit or loss, the following criteria must be met:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

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

(2) HTM

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

(3) LAR

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

(4) AFS

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

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

On derecognition, the cumulative fair value gains and losses previously recognised in other comprehensive income are reclassified to profit or loss.

(ii) Derecognition and impairment of financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Fair value of financial instruments

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

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

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

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

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

(f) Financial liabilities

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

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

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

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

(g) Offsetting of financial assets and financial liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investment property

Investment property comprises land and building held by the Company which are held for long term rental yields or for capital appreciation or both and are not substantially occupied by the Company.

Investment property is initially stated at cost including related and incidental expenditure incurred, and is subsequently carried at fair value by the directors based on independent valuation of the open market values on existing use basis carried out by professional valuer. These valuations are reviewed annually and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying values of the investment property are materially different from the market value. Professional and qualified external valuer is engaged to perform the formal valuation. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the external valuer, which valuation techniques and inputs to use. The valuation result is presented to the Board of Directors for approval prior to the adoption of the valuation report.

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

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

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

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

(i) Impairment of assets

(i) Financial assets

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

Financial assets carried at amortised cost

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(i) Financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment losses as previously recognised in the profit or loss, is transferred from equity or insurance contract liabilities to the profit or loss.

Reversal of impairment losses on equity instruments classified as AFS financial assets are not recognised in the profit or loss. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. Reversal of impairment losses on debt instruments classified as AFS financial assets are reversed through the profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the profit or loss.

(ii) Non-financial assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits

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

Other than the mandatory contributions to the Employees' Provident Fund, the Company makes contributions to a separately funded defined contribution retirement benefits scheme ("the Scheme"), which is operated by the immediate holding company and administered by the Trustees of the Scheme, for all employees of the Group, including employees of the Company. Under the Scheme, the Company shall make contributions to the Scheme at such rate and at such frequency as shall be determined from time to time by the immediate holding company and the Trustees of the Scheme, with the advice of an Actuary, provided that the total contribution by the Company to the Scheme and to the Employees' Provident Fund does not exceed 15% of the employees' salary. Actuarial investigation is carried out periodically to assess the financial condition of the Scheme.

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

(iii) Share-based compensation

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

(i) Equity-settled share-based compensation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(iii) Share-based compensation (continued)

(ii) Cash-settled share-based compensation

Cash-settled share-based compensation relates to the employee services received in exchange for the grant of the share appreciation rights. The fair value of the compensation 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 MFC. At each date of the statement of financial position, the Company reviews its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the profit or loss.

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

(k) Foreign currencies

(i) Functional and Presentation currency

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

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

(ii) Transactions and balances

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Product classification

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

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

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

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

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

Contracts in the Participating life funds are classified as insurance contracts with DPF and contracts in the Non-participating life funds are classified as insurance contracts without DPF.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Reinsurance

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

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

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

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

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

(n) Life insurance underwriting results

(i) Gross premiums

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

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

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

(ii) Reinsurance premiums

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Life insurance underwriting results (continued)

(iii) Commission and agency expenses

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

(iv) Benefits, claims and expenses

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

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

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

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

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

(o) Insurance receivables

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

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

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

(p) Assets held for sale

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Taxation

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

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

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

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

(r) Cash and cash equivalents

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

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

(s) Other revenue recognition

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Other revenue recognition (continued)

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

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

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

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

Fee income is recognised when the services are provided.

(t) Dividends on ordinary share capital

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

(u) Contingent liabilities and contingent assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Insurance contract liabilities

(i) Actuarial liabilities

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Insurance contract liabilities (continued)

(ii) Unallocated surplus

Surpluses of contracts under the Participating life funds are attributable to policyholders and shareholder and the amount and timing of distribution to both the policyholders and shareholder are determined by an actuarial valuation of the long term liabilities to policyholders at the date of the statement of financial position and is made in accordance with the provisions of the Financial Services Act 2013 and policy documents issued by BNM.

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

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

(iii) Fair value reserve

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

(iv) Asset revaluation reserve

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

(v) Net asset value attributable to unit holders

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

(w) Fair value measurement

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

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

Other than the above, the estimates, assumptions and judgements that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future are discussed below.

Valuation of actuarial liabilities

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

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

Interest rate

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

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

(ii) For cash flows with duration of 15 years or more, Malaysian Government Bond zero coupon spot yields of 15 years to maturity are used

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

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

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

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

Valuation of actuarial liabilities (continued)

Interest rate (continued)

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

Calendar Year	Resultant Valuation Discounting Yields				
	Ordinary Par	Annuity Par	Non-Par Annuity + Non-Par + IL	Non-Par Universal Life	IL SIP (VA)
2019	5.15%	3.45%	3.45%	4.76%	2.63%
2020	5.23%	3.61%	3.61%	4.70%	2.33%
2021	5.31%	3.80%	3.80%	4.65%	2.42%
2022	5.39%	4.10%	4.10%	4.60%	2.56%
2023	5.47%	4.34%	4.34%	4.54%	2.61%
2024	5.56%	4.70%	4.70%	4.49%	2.75%
2025	5.64%	4.28%	4.28%	4.44%	2.83%
2026	5.72%	4.20%	4.20%	4.39%	2.86%
2027	5.80%	4.24%	4.24%	4.33%	2.92%
2028	5.88%	4.68%	4.68%	4.28%	2.99%
2029	5.96%	5.13%	5.13%	4.23%	2.89%
2030	5.96%	5.19%	5.19%	4.23%	2.92%
2031	5.96%	5.49%	5.49%	4.23%	2.96%
2032	5.96%	5.67%	5.67%	4.23%	3.00%
2033	5.96%	6.00%	6.00%	4.23%	3.03%
2034	5.96%	4.59%	4.59%	4.23%	2.78%
2035+	5.96%	4.59%	4.59%	4.23%	2.78%

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

Assumptions on mortality are derived from the Company's historical experience, For morbidity assumptions, they are based on reinsurance premium tables, 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 risks to longevity, prudent allowance is made for expected future mortality improvements.

Assumptions on future expenses are based on current expense levels with appropriate expected expense inflation adjustments.

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

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

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

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

Participating Policyholders' Bonuses/Dividends

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

Company No.

814942	M

MANULIFE INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

4. PROPERTY AND EQUIPMENT

	Note	Building RM'000	Work in progress RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
Cost/valuation							
At 1 January 2017		10,321	141	18,413	443	2,672	31,990
Additions		-	638	491	-	12	1,141
Write off	24	-	-	(147)	-	-	(147)
Revaluation adjustment	13	30	-	-	-	-	30
At 31 December 2017/1 January 2018		10,351	779	18,757	443	2,684	33,014
Additions		-	87	215	7	16	325
Disposal		-	-	(437)	(210)	-	(647)
Transfer to intangible assets	6	-	(3)	-	-	-	(3)
Transfer to furniture, fittings and equipment		-	(312)	312	-	-	-
Transfer to renovations		-	(277)	-	-	277	-
Transfer to related company	31	-	(139)	-	-	-	(139)
Transfer from holding company	31	-	-	261	-	802	1,063
Revaluation adjustment	13	(38)	-	-	-	-	(38)
At 31 December 2018		10,313	135	19,108	240	3,779	33,575
Comprising assets stated at 31 December 2018:							
Valuation		10,313	-	-	-	-	10,313
Cost		-	135	19,108	240	3,779	23,262
		10,313	135	19,108	240	3,779	33,575
Comprising assets stated at 31 December 2017:							
Valuation		10,351	-	-	-	-	10,351
Cost		-	779	18,757	443	2,684	22,663
		10,351	779	18,757	443	2,684	33,014

4. PROPERTY AND EQUIPMENT (CONTINUED)

	Note	Building RM'000	Work in progress RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Renovations RM'000	Total RM'000
Accumulated depreciation							
At 1 January 2017		-	-	13,427	92	555	14,074
Charge for the financial year	24	334	-	1,173	87	267	1,861
Write off	24	-	-	(131)	-	-	(131)
Reversal on revaluation	13	(334)	-	-	-	-	(334)
At 31 December 2017/1 January 2018		-	-	14,469	179	822	15,470
Charge for the financial year	24	207	-	1,136	79	304	1,726
Disposal		-	-	(437)	(90)	-	(527)
Reversal on revaluation	13	(207)	-	-	-	-	(207)
At 31 December 2018		-	-	15,168	168	1,126	16,462
Net carrying amount							
At 31 December 2018		10,313	135	3,940	72	2,653	17,113
At 31 December 2017		10,351	779	4,288	264	1,862	17,544

4. PROPERTY AND EQUIPMENT (CONTINUED)

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

	2018 RM'000	2017 RM'000
Building	6,223	6,379

The Company has carried out a valuation on the freehold property based on the income method conducted by an independent qualified valuer, Sr Thong Soo Fun, MRISM, MPEPS, Senior General Manager, Registered Valuer (V561) of Rahim & Co International Sdn Bhd (1126597-X). The valuation of the freehold property was adopted for the financial year ended 31 December 2018. The recognised revalued amount was based on the valuation exercise performed as at 31 December 2018.

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

Fair value hierarchy

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

Level 1 - Fair value is derived from unadjusted quoted price in active markets for identical properties that the entity can access at the measurement date.

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

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

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

	2018 RM'000	2017 RM'000
Fair value as stated in valuation report	10,313	10,351

The reconciliation from beginning to ending balances for the freehold property is as disclosed on page 61 and page 62.

4. PROPERTY AND EQUIPMENT (CONTINUED)

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

	Valuation technique	Significant unobservable inputs	Range
2018			
Freehold property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.40 - RM5.11 psf
		Average rental for reversionary period	RM4.50 psf
		Outgoings for term period	RM1.60 psf
		Outgoings for reversionary period	RM1.60 psf
2017			
Freehold property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.40 - RM5.03 psf
		Average rental for reversionary period	RM4.50 psf
		Outgoings for term period	RM1.60 psf
		Outgoings for reversionary period	RM1.60 psf

A significant increase or decrease in each of the unobservable inputs used in the valuation would result in a correspondingly higher or lower fair value of the freehold property.

5. INVESTMENT PROPERTY

	Note	2018 RM'000	2017 RM'000
At 1 January		51,486	50,913
Additions		-	-
Fair value (loss)/gain	22	(381)	573
At 31 December		51,105	51,486
Represented by:			
Freehold property		51,105	51,486

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

	2018 RM'000	2017 RM'000
Rental income (note 20)	3,077	4,257
Direct operating expenses arising from investment property that generate rental income	(1,590)	(1,730)
Direct operating expenses arising from investment property that did not generate rental income	(322)	(322)

5. INVESTMENT PROPERTY (CONTINUED)

The Company has carried out a valuation on the investment property based on the income method conducted by an independent qualified valuer, Sr Thong Soo Fun, MRISM, MPEPS, Senior General Manager, Registered Valuer (V561) of Rahim & Co International Sdn Bhd (1126597-X). The valuation of the investment property was adopted for the financial year ended 31 December 2018. The recognised revalued amount was based on the valuation exercise performed as at 31 December 2018.

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

	Valuation technique	Significant unobservable inputs	Range
2018			
Investment property	Income method	Term period’s net yield	6.00%
		Reversionary period’s net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.40 - RM5.11 psf
		Average rental for reversionary period	RM4.50 psf
		Outgoings for term period	RM1.60 psf
		Outgoings for reversionary period	RM1.60 psf
2017			
Investment property	Income method	Term period’s net yield	6.00%
		Reversionary period’s net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.40 - RM5.03 psf
		Average rental for reversionary period	RM4.50 psf
		Outgoings for term period	RM1.60 psf
		Outgoings for reversionary period	RM1.60 psf

A significant increase or decrease in each of the unobservable inputs used in the valuation would result in a correspondingly higher or lower fair value of the investment property.

The reconciliation from beginning to ending balances for investment property is as disclosed on page 64.

6. INTANGIBLE ASSETS

	Note	Exclusive right RM'000	Computer software RM'000	Computer software in progress RM'000	Total RM'000
Cost					
At 1 January 2017		40,000	4,431	2,585	47,016
Additions		-	24	491	515
Transfer from computer software in progress		-	2,249	(2,249)	-
Transfer to related company	31	-	-	(32)	(32)
At 31 December 2017/1 January 2018		40,000	6,704	795	47,499
Additions		-	9	811	820
Transfer from property and equipment	4	-	3	-	3
Transfer from holding company	31	-	155	-	155
At 31 December 2017		40,000	6,871	1,606	48,477
Accumulated amortisation					
At 1 January 2017		16,454	2,060	-	18,514
Amortisation during the financial year	24	5,136	688	-	5,824
At 31 December 2017/1 January 2018		21,590	2,748	-	24,338
Amortisation during the financial year	24	3,212	1,104	-	4,316
At 31 December 2018		24,802	3,852	-	28,654
Net carrying amount					
At 31 December 2018		15,198	3,019	1,606	19,823
At 31 December 2017		18,410	3,956	795	23,161

The Exclusive right is a definite life intangible asset and relates to a 10-year exclusive bancassurance agreement entered into between the Company and Alliance Bank Malaysia Berhad ("ABMB") on 13 June 2014. The Exclusive right is amortised in accordance with note 2(c)(i).

7. LOANS AND RECEIVABLES

		2018 RM'000	2017 RM'000
Loans receivable:			
Policy loans		152,365	160,741
Mortgage loans		1,598	1,893
Staff loans		780	1,492
		154,743	164,126
Allowance for impairment loss		(135)	(366)
	(i)	154,608	163,760
Fixed and call deposits with licensed banks in Malaysia		84,306	113,216
Accrued interest		115	135
	(ii)	84,421	113,351
Other receivables:			
Amount due from related companies (note 31)	(iii)	2,502	898
Accrued dividend income		1,452	2,052
Accrued rental income		274	180
Deposits		673	673
Other debtors		25,208	27,179
		30,109	30,982
Allowance for impairment loss		(290)	(290)
	(iv)	29,819	30,692
Prepayments		3,172	688
Total		272,020	308,491

7. LOANS AND RECEIVABLES (CONTINUED)

		2018 RM'000	2017 RM'000
(i)	Loans receivable:		
	Receivable within 12 months	691	582
	Receivable after 12 months	153,917	163,178
		154,608	163,760
(ii)	Fixed and call deposits with licensed banks in Malaysia:		
	Receivable within 12 months	84,421	113,351
	Receivable after 12 months	-	-
		84,421	113,351

(iii) The amounts due from immediate holding company/related companies are unsecured, trade related, interest free and repayable on demand.

		2018 RM'000	2017 RM'000
(iv)	Other receivables:		
	Receivable within 12 months	29,429	30,302
	Receivable after 12 months	390	390
		29,819	30,692

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

8. FINANCIAL ASSETS

(a) Available-for-sale

	2018 RM'000	2017 RM'000
Equity securities		
- Quoted in Malaysia	732,709	841,535
- Quoted outside Malaysia	109,339	39,690
- Unquoted in Malaysia	1,944	1,944
Real estate investment trusts	8,431	6,496
Unit trust funds*	190,348	193,259
Malaysian Government Securities	309,926	511,559
Government Investment Issues	133,622	183,893
Corporate debt securities		
- Unquoted	1,551,639	1,354,692
Accrued interest	22,358	21,498
	3,060,316	3,154,566
Current	1,149,667	1,201,374
Non-current	1,910,649	1,953,192
	3,060,316	3,154,566

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

	2018 RM'000	2017 RM'000
Equity securities		
- Quoted in Malaysia	493,196	521,921
- Quoted outside Malaysia	4,886	12,663
Real estate investment trusts	5,786	7,543
Unit trust funds*	124,739	59,370
Malaysian Government Securities	34,398	40,950
Government Investment Issues	23,388	24,302
Corporate debt securities		
- Unquoted	363,894	242,177
Mutual funds		
- Quoted outside Malaysia	496,354	618,047
Forward foreign exchange contract (note 15)	3,958	4,284
Accrued interest	4,967	3,413
	1,555,566	1,534,670
Current	1,221,884	1,305,919
Non-current	333,682	228,751
	1,555,566	1,534,670

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

8. FINANCIAL ASSETS (CONTINUED)

(c) Carrying value of financial assets

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

	Available-for-sale RM'000	Fair value through profit or loss RM'000	Total RM'000
At 1 January 2017	2,877,618	1,335,713	4,213,331
Purchases	1,714,058	540,766	2,254,824
Maturities	(62,502)	(8,050)	(70,552)
Disposals	(1,440,707)	(378,951)	(1,819,658)
Fair value gains recorded in:			
Profit or loss (note 22)	-	107,300	107,300
Other comprehensive income	76,264	-	76,264
Allowance for impairment losses (note 22)	(11,862)	-	(11,862)
Net (amortisation of premiums)/ accretion of discounts (note 20)	(1,279)	275	(1,004)
Unrealised exchange losses	-	(62,916)	(62,916)
Movement in accrued interest	2,976	533	3,509
At 31 December 2017/1 January 2018	3,154,566	1,534,670	4,689,236
Purchases	2,267,904	841,092	3,108,996
Maturities	(96,350)	(6,750)	(103,100)
Disposals	(2,121,392)	(678,946)	(2,800,338)
Fair value loss recorded in:			
Profit or loss (note 22)	-	(147,612)	(147,612)
Other comprehensive income	(89,340)	-	(89,340)
Allowance for impairment losses (note 22)	(53,552)	-	(53,552)
Net amortisation of premiums (note 20)	(2,379)	(432)	(2,811)
Unrealised exchange gains	-	11,989	11,989
Movement in accrued interest	859	1,555	2,414
At 31 December 2018	3,060,316	1,555,566	4,615,882

9. REINSURANCE ASSETS

	2018 RM'000	2017 RM'000
Reinsurance assets on:		
- Insurance contract liabilities	2,290	1,272
- Insurance claims liabilities	7,218	5,140
	9,508	6,412

10. INSURANCE RECEIVABLES

	2018 RM'000	2017 RM'000
Due premiums including agents' balances	18,533	21,703
Due from reinsurers	6,874	3,333
	25,407	25,036
Allowance for impairment loss	(1,063)	(1,065)
	24,344	23,971
Receivable within 12 months	24,344	23,971

The carrying amounts disclosed above approximate fair values as at the end of the financial year due to their short term maturity.

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

	Gross carrying amount RM'000	Gross amount offset RM'000	Net amount reported RM'000
31 December 2018			
Commissions receivables	15,206	-	15,206
Claims recoveries	3,296	-	3,296
Premiums ceded	-	(11,628)	(11,628)
	18,502	(11,628)	6,874
31 December 2017			
Commissions receivables	7,420	-	7,420
Claims recoveries	3,728	-	3,728
Premiums ceded	-	(7,815)	(7,815)
	11,148	(7,815)	3,333

11. SHARE CAPITAL

	2018		2017	
	Number of shares	Nominal value	Number of shares	Nominal Value
	'000	RM'000	'000	RM'000
Issued and fully paid up:				
Ordinary shares:				
At 1 January/31 December	300,000	150,000	300,000	150,000

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

12. RESERVES

	Note	2018 RM'000	2017 RM'000
Non-distributable:			
Fair value reserve, held by:			
Non-participating life fund		4,339	8,519
Shareholder's fund		1,844	2,331
	(i)	6,183	10,850
Retained earnings	(ii)	68,652	68,988
Distributable:			
Retained earnings	(iii)	246,085	317,352
		320,920	397,190

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

(ii) Non-distributable retained earnings are surplus arising from Non-participating life fund, net of deferred tax. These amounts are only distributable upon actual recommended transfer from the Non-participating (including Investment-linked operating fund) life fund to the Shareholder's fund by the Appointed Actuary.

(iii) Under the single tier system, the Company is able to frank the payment of dividends out of its entire distributable retained earnings as at the date of the statement of financial position, subject to the approval by Bank Negara Malaysia under section 51 of the Financial Services Act 2013.

13. INSURANCE CONTRACT LIABILITIES

	Gross		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Actuarial liabilities	2,494,888	2,402,886	2,492,598	2,401,614
Unallocated surplus	35,699	40,603	35,699	40,603
Fair value reserve	30,840	108,784	30,840	108,784
Asset revaluation reserve	1,649	1,480	1,649	1,480
Investment-linked policyholders' account	1,301,629	1,394,287	1,301,629	1,394,287
	3,864,705	3,948,040	3,862,415	3,946,768
Current	1,426,886	1,486,537	1,426,969	1,486,685
Non-current	2,437,819	2,461,503	2,435,446	2,460,083
	3,864,705	3,948,040	3,862,415	3,946,768

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

	Gross		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	3,948,040	3,591,347	3,946,768	3,586,862
Inforce reserve movement	98,261	73,841	97,800	73,090
New business reserve	26,587	15,689	26,030	15,485
Discount rate and other changes	(32,846)	30,798	(32,846)	34,966
Unallocated surplus	(4,904)	(22,799)	(4,904)	(22,799)
Fair value reserve, net of tax	(77,944)	62,008	(77,944)	62,008
Asset revaluation reserve				
- Revaluation adjustment (note 4)	(38)	30	(38)	30
- Reversal of accumulated depreciation on revaluation (note 4)	207	334	207	334
	169	364	169	364
Investment-linked policyholders' account	(92,658)	196,792	(92,658)	196,792
At 31 December	3,864,705	3,948,040	3,862,415	3,946,768

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

For the current year ended 31 December 2018, the applicable assumption changes resulted in lower actuarial liabilities of RM32.8 million (2017: higher actuarial liabilities of RM30.8 million), with a corresponding increase in unallocated surplus for the participating business of RM39.2 million (2017: decrease in unallocated surplus of RM29.1 million) and decrease in net profit before tax of RM6.4 million (2017: decrease in net profit before tax of RM1.7 million).

14. INSURANCE CLAIMS LIABILITIES

	Gross		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Provision for outstanding claims	55,014	56,489	47,796	51,349
Current	55,014	56,489	47,796	51,349

15. FINANCIAL ASSET/(LIABILITY) AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives

The table below shows the fair value of derivative financial instruments, recorded as asset or liability, together with their notional amounts. The notional amount, recorded gross, is the amount of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. Derivative financial instruments are recognised as financial asset or financial liability in accordance with the policy described in note 2(d)(i)(1) and note 2(f).

		Fair value gain/(loss) recognised as		
	Notional amount RM'000	Financial asset RM'000	Financial liability RM'000	Net carrying amount RM'000
31 December 2018				
Hedging derivative:				
Forward foreign exchange contract (note 8(b))	362,429	3,958	-	3,958
Forward foreign exchange contract	9,193	-	(116)	(116)
31 December 2017				
Hedging derivative:				
Forward foreign exchange contract (note 8(b))	454,603	4,284	-	4,284

16. DEFERRED TAX LIABILITIES

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

	2018 RM'000	2017 RM'000
Deferred tax liabilities	16,879	36,426
Current	(3,960)	15,382
Non-current	20,839	21,044
	16,879	36,426

16. DEFERRED TAX LIABILITIES (CONTINUED)

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

	Unallocated surplus RM'000	Revaluation-investment property RM'000	Accelerated depreciation RM'000	Revaluation-investments RM'000	Others RM'000	Total RM'000
At 1 January 2017	21,920	149	77	3,790	(29)	25,907
Recognised in:						
Profit or loss:						
- Other operating expenses (note 26)	-	46	147	4,164	-	4,357
- Taxation (note 27)	(134)	-	-	(30)	-	(164)
Other comprehensive income						
- Fair value reserve	-	-	-	6,326	-	6,326
At 31 December 2017/1 January 2018	21,786	195	224	14,250	(29)	36,426
Recognised in:						
Profit or loss:						
- Other operating (income)/expenses (note 26)	-	(30)	32	(12,438)	19	(12,417)
- Taxation (note 27)	(106)	-	-	(295)	-	(401)
Other comprehensive loss						
- Fair value reserve	-	-	-	(6,729)	-	(6,729)
At 31 December 2018	21,680	165	256	(5,212)	(10)	16,879

17. INSURANCE PAYABLES

	2018 RM'000	2017 RM'000
Due to reinsurers	3,749	2,714
Due to agents	3,923	5,668
Due to insureds	550,285	518,554
	557,957	526,936
Current	557,957	526,936

The carrying amounts disclosed above approximate fair values as at the end of the financial year due to their short-term maturity.

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

	Gross carrying amount RM'000	Gross amount offset RM'000	Net amount reported RM'000
31 December 2018			
Premiums ceded	4,612	-	4,612
Commissions receivables	-	(117)	(117)
Claims recoveries	-	(746)	(746)
	4,612	(863)	3,749
31 December 2017			
Premiums ceded	3,113	-	3,113
Commissions receivables	-	(241)	(241)
Claims recoveries	-	(158)	(158)
	3,113	(399)	2,714

18. OTHER PAYABLES

	2018 RM'000	2017 RM'000
Other creditors	55,644	51,959
Accrued liabilities	42,823	36,038
Amount due to related companies (note 31)	39	-
Amount due to immediate holding company (note 31)	5,193	642
	103,699	88,639

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 fair values as at the end of the financial year due to their short-term maturity. All amounts are payable within one year.

19. NET PREMIUMS

	2018 RM'000	2017 RM'000
First year premium	108,493	132,074
Renewal year premium	600,764	566,732
Single premium	145,259	158,674
	854,516	857,480

20. INVESTMENT INCOME

	2018 RM'000	2017 RM'000
Financial assets at FVTPL - designated upon initial recognition		
Interest/profit sharing income	15,602	14,084
Dividend income		
- equity securities		
- quoted in Malaysia	15,633	15,013
- quoted outside Malaysia	253	188
- real estate investment trusts	271	324
- unit trust funds	3,846	18
- mutual funds - outside Malaysia	5,791	6,960
Net (amortisation of premiums)/accretion of discounts (note 8(c))	(432)	275
AFS financial assets		
Interest income	96,260	91,464
Dividend income		
- equity securities		
- quoted in Malaysia	24,908	26,850
- quoted outside Malaysia	1,902	424
- unquoted in Malaysia	194	194
- real estate investment trusts	262	310
- unit trust funds	6,534	5,577
Net amortisation of premiums (note 8(c))	(2,379)	(1,279)
Loans and receivables		
Interest/profit sharing income	13,634	13,775
Investment property		
Rental income (note 5)	3,077	4,257
Cash and cash equivalents		
Interest/profit sharing income	785	713
	186,141	179,147

21. NET REALISED GAINS

	2018 RM'000	2017 RM'000
Property and equipment		
Gain on disposal of property and equipment	4	-
AFS financial assets		
Realised gains:		
Equity securities - quoted in Malaysia	33,541	49,572
Equity securities - quoted outside Malaysia	155	-
Real estate investment trusts	106	89
Unit trust funds	249	-
Debt securities	2,271	157
Realised losses:		
Unit trust funds	-	(139)
Debt securities	(21)	(1,009)
Total net realised gains for AFS financial assets	36,301	48,670
Total net realised gains	36,305	48,670

22. NET FAIR VALUE (LOSSES)/GAINS

	2018 RM'000	2017 RM'000
Investment property		
Unrealised fair value (loss)/gain (note 5)	(381)	573
Financial assets at FVTPL **- designated upon initial recognition**		
Fair value gains		
Realised	1,719	65,204
Unrealised (note 8(c))	689	107,300
Fair value losses		
Realised	(11,590)	(1,050)
Unrealised (note 8(c))	(148,301)	-
Net fair value (losses)/gain on financial assets FVTPL - designated upon initial recognition	(157,483)	171,454
AFS financial assets		
Impairment losses on quoted equities (note 8(c))	(53,552)	(11,862)
Total net fair value (losses)/gain	(211,416)	160,165

23. FEE INCOME

Fee income comprises outsourcing fee income earned from related companies.

24. MANAGEMENT EXPENSES

	2018 RM'000	2017 RM'000
Staff costs (note 24(a))	54,106	49,044
Directors' remuneration: (note 24(b))		
- Fees	247	277
- Other emoluments	4,880	5,351
Auditors' remuneration:		
- Statutory audit	423	438
- Audit related services	114	82
Office rental paid and payable to:		
- Immediate holding company (note 31)	1,282	1,188
- Others	891	972
Depreciation of property and equipment (note 4)	1,726	1,861
Amortisation of intangible assets (note 6)	4,316	5,824
Property and equipment written off (note 4)	-	16
(Reversal of)/allowance for impairment loss on loans receivable	(231)	38
Allowance for impairment loss on other receivables	-	3
Reversal of impairment loss on insurance receivables	(2)	(1)
Bancassurance service fee	3,000	3,000
Credit card charges	3,282	2,911
Fund management expenses	6,204	4,752
Goods and services tax	1,789	3,136
Information technology outsourcing expenses	6,894	6,766
Marketing and advertising expenses	9,114	13,596
Printing and stationery expenses	1,066	1,102
Postage and courier charges	880	860
Professional fee	1,801	980
Provision of finance support	192	-
Provision of HR support	663	-
Outsourcing fees	3,037	2,436
Software maintenance expenses:		
- Paid and payable	4,375	3,534
- Waiver of prior years' software maintenance expenses by a related company	-	(3,047)
Training expenses	742	1,245
Travelling and entertainment expenses	1,786	1,944
Utilities and office maintenance expenses	1,835	1,761
Other expenses	2,233	2,888
	116,645	112,957

(a) Staff costs

		2018 RM'000	2017 RM'000
Staff costs		41,739	39,332
Retirement benefits contributions	(i)	5,022	5,013
Share-based payments	(ii)	370	632
Other staff related expenses		6,975	4,067
Total staff costs		54,106	49,044

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

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

24. MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

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

	Non-deferred		Deferred		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Chief Executive Officers ("CEO")/Executive directors:						
Mark Steven O'Dell						
Fixed remuneration						
• Salaries	1,741	1,812	-	-	1,741	1,812
• Contribution to defined contribution plan	80	114	-	-	80	114
• Benefits in kind	267	430	-	-	267	430
• Tax equalisation **	1,859	2,113	-	-	1,859	2,113
	3,947	4,469	-	-	3,947	4,469
Variable Remuneration						
• Bonus	-	397	-	-	-	397
• RSU expenses	-	-	86	485	86	485
• Others	167	-	-	-	167	-
	167	397	86	485	253	882
Lee Sang Hui						
Fixed remuneration						
• Salaries	231	-	-	-	231	-
• Contribution to defined contribution plan	28	-	-	-	28	-
• Benefits in kind	4	-	-	-	4	-
	263	-	-	-	263	-
Variable Remuneration						
• Bonus	-	-	-	-	-	-
• Others	417	-	-	-	417	-
	417	-	-	-	417	-
Total for CEOs/Executive Directors	4,794	4,866	86	485	4,880	5,351
Other Executive director:						
• Fees	33	45	-	-	33	45
Non-Executive directors:						
Fixed remuneration						
• Fees	214	232	-	-	214	232
	5,041	5,143	86	485	5,127	5,628

24. MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration (continued)

	2018 RM'000	2017 RM'000
Represented by:		
Directors' fees	247	277
Director's emoluments	2,750	2,808
Benefits in kind	271	430
Tax equalisation**	1,859	2,113
	4,880	5,351
	5,127	5,628

**Tax equalisation refers to the tax incurred by the Company on behalf of the previous CEO who is on international assignment so as to allow him a tax neutral position for working in Malaysia. Included in current year payment with respect to prior year is RM326,000 (2017:RM607,000).

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

	Number of directors 2018	2017
Chief Executive Officers ("CEO")/Executive directors		
RM5,000,000-RM5,500,000	-	1
RM4,000,000-RM4,500,000	1	-
RM500,000-RM1,000,000	1	-
Other Executive director		
Below RM50,000	1	1
Non-Executive directors:		
Below RM50,000	1	-
Above RM50,000	3	4

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

	2018 RM'000	2017 RM'000
Executive director		
Leung Rockson Lok-Shuen*	33	45
Non-Executive directors:		
Dato' Md Agil bin Mohd Natt	88	65
Datuk Seri Panglima Mohd Annuar Bin Zaini	55	55
Lim Hun Soon @ David Lim	57	57
Dr. Gopakumar Kurup*	14	55
	214	232
	247	277

* Leung Rockson Lok-Shuen and Dr. Gopakumar Kurup have resigned as Executive Director and Non-Executive Director on 31 October 2018 and 31 March 2018 respectively.

25. SHARE-BASED COMPENSATION

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

	2018 RM'000	2017 RM'000
RSU expenses	456	1,117
	456	1,117

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

26. OTHER OPERATING (INCOME)/EXPENSES

	2018 RM'000	2017 RM'000
Foreign exchange		
- Realised losses/(gain)	3,921	(10,682)
- Unrealised (gain)/losses	(11,948)	63,735
Interest on agent's bond withheld	16	17
Others	5,278	6,058
Tax expense on investment income of Life fund and Investment-linked funds:		
- Current tax	12,919	17,583
- Deferred tax (note 16)	(12,417)	4,357
	502	21,940
	(2,231)	81,068

The income tax for the Life fund and Investment-linked funds of the insurance business is calculated based on the tax rate of 8% (2017: 8%) of the assessable investment income, net of allowable deductions for the financial year.

27. TAXATION

	2018 RM'000	2017 RM'000
Current tax		
Current financial year	11,063	13,720
Over provision in prior financial years	(115)	(128)
	10,948	13,592
Deferred tax		
Current financial year (note 16)	(401)	(164)
	10,547	13,428

The current income tax for the Company is calculated based on the tax rate of 24% (2017: 24%) of the estimated assessable profit for the financial year.

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

	2018 RM'000	2017 RM'000
Profit before taxation	38,944	52,855
Taxation at Malaysia statutory tax rate of 24% (2017: 24%)	9,347	12,685
Section 110B tax credit set off	(2,071)	(2,129)
Income not subject to tax	(474)	(1,378)
Expenses not deductible for tax purposes	3,860	4,378
	10,662	13,556
Over provision in prior financial years	(115)	(128)
Tax expense	10,547	13,428

28. BASIC AND DILUTED EARNINGS PER SHARE

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

	2018 RM'000	2017 RM'000
Profit attributable to ordinary equity holder (RM'000)	28,397	39,427
Number of shares in issue ('000)	300,000	300,000
Basic earnings per share (sen)	9.47	13.14

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

29. DIVIDEND PAID

	2018		2017	
	Net dividend per share Sen	Amount of dividend RM'000	Net dividend per share Sen	Amount of dividend RM'000
Single tier dividend for 2017				
- First and final dividend	33.3	100,000	-	-
	33.3	100,000	-	-

No dividend is recommended for the financial year ended 31 December 2018.

30. ADJUSTMENTS FOR NON-CASH ITEMS

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

	2018 RM'000	2017 RM'000
Interest income	(126,281)	(120,036)
Dividend income	(59,594)	(55,858)
Rental income	(3,077)	(4,257)
Net amortisation of premiums	2,811	1,004
Gains on disposal of AFS financial assets	(36,301)	(48,670)
Fair value loss/(gain) on investment property	381	(573)
Fair value loss/(gain) on FVTPL financial assets	157,483	(171,454)
Impairment losses on AFS financial assets	53,552	11,862
Depreciation of property and equipment	1,726	1,861
Gain on disposal of property and equipments	(4)	-
Property and equipment written off	-	16
Amortisation of intangible assets	4,316	5,824
Reversal of impairment loss on insurance receivables	(2)	(1)
(Reversal of)/allowance for impairment loss on loans receivable	(231)	38
Allowance for impairment loss on other receivables	-	3
Tax on investment income of Life fund and Investment-linked funds	502	21,940
Taxation	10,547	13,428
Realised foreign exchange losses/(gain)	3,921	(10,682)
Unrealised foreign exchange (gain)/losses	(11,948)	63,735
	(2,199)	(291,820)

31. SIGNIFICANT RELATED PARTY DISCLOSURES

Identity of related parties

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

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

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

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

Related parties also include key management personnel. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel of the Company include the directors and certain members of senior management of the Company. Total compensation paid to the Company's directors are disclosed in note 24.

Significant related party transactions

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

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Significant related party transactions (continued)

	2018 RM'000	2017 RM'000
Expenses/(income)		
Intermediate holding company		
Reimbursement of personnel expenses	6,925	8,611
Reimbursement of software maintenance expenses		
- Paid and payable	2,385	2,303
- Waiver of prior years' software maintenance expenses	-	(3,047)
Reimbursement of director fee	33	44
Reimbursement of general administrative expenses	-	7
Reimbursement of consultation fee	13	28
Reimbursement of overhead expense	(561)	(355)
Reimbursement of meeting and conference	706	-
Reimbursement of education and training expense	4	-
Reimbursement of travelling expenses	29	3
Provision of IT infrastructure support	1,587	-
Provision of finance support	192	-
Provision of HR support	663	-
Subsidiaries of ultimate holding company		
Rental income	(91)	(680)
Information technology outsourcing expenses	-	70
Software development service	-	22
Subsidiaries of the immediate holding company		
Outsourcing fee income	(3,268)	(3,636)
Outsourcing fee expense	-	92
Rental income	(677)	(670)
Fund management expenses	10,639	10,048
Software development service	-	(378)
Management fees and maintenance charges	99	99
Transfer of property and equipment, at net book value (note 4)	(139)	-
Transfer of software development, at net book value (note 6)	-	(32)
Immediate holding company		
Outsourcing fee income	(1,130)	(1,130)
Outsourcing fees	881	436
Rental income	(107)	(112)
Rental expenses	1,282	1,188
Transfer of property and equipment, at net book value (note 4)	1,063	-
Transfer of intangible assets, at net book value (note 6)	155	-

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

Expenses	2018 RM'000	2017 RM'000
Hong Kong	12,537	10,996
Malaysia	14,119	11,955

31. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

Key management personnel

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

		2018 RM'000	2017 RM'000
Salaries, other short-term employee benefits and other directors' emoluments		13,371	13,252
Retirement benefits contribution	(i)	1,058	960
RSU expenses	(ii)	456	1,117
		14,885	15,329

(i) The retirement benefits contributions were made to the defined contribution plan as mentioned in note 2(j)(ii) to the financial statements.
(ii) The share-based payments incurred during the financial year relates to the share-based compensation granted to employees as mentioned in note 2(j)(iii)(ii) to the financial statements.

Significant related party balances

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

	2018 RM'000	2017 RM'000
Loans and receivables (note 7)		
- Amount due from related companies	2,502	898
	2,502	898
Other payables (note 18)		
- Amount due to related companies	39	-
- Amount due to immediate holding company	5,193	642
	5,232	642

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

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

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

	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2018					
Financial assets					
Loans and receivables	-	-	268,848	-	268,848
AFS financial assets	3,060,316	-	-	-	3,060,316
Financial assets at FVTPL	-	1,555,566	-	-	1,555,566
Insurance receivables	-	-	24,344	-	24,344
Cash and cash equivalents	-	-	54,237	-	54,237
	3,060,316	1,555,566	347,429	-	4,963,311
Financial liabilities					
Financial liabilities at FVTPL	-	116	-	-	116
Insurance payables	-	-	-	557,957	557,957
Other payables	-	-	-	103,699	103,699
	-	116	-	661,656	661,772

	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2017					
Financial assets					
Loans and receivables	-	-	307,803	-	307,803
AFS financial assets	3,154,566	-	-	-	3,154,566
Financial assets at FVTPL	-	1,534,670	-	-	1,534,670
Insurance receivables	-	-	23,971	-	23,971
Cash and cash equivalents	-	-	85,828	-	85,828
	3,154,566	1,534,670	417,602	-	5,106,838
Financial liabilities					
Insurance payables	-	-	-	526,936	526,936
Other payables	-	-	-	88,639	88,639
	-	-	-	615,575	615,575

32. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Determination of fair values

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

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

(ii) The fair values of quoted equities and investments in real estate investment trusts are based on quoted market prices as at the reporting date;

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

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

(v) The fair values of mutual funds and unit trust funds are based on the net asset values of the underlying funds as at the reporting date; and

(vi) The fair values of forward foreign exchange contracts are based on valuations provided by the financial institutions making reference to quoted market prices.

(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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

The following table presents the Company's financial assets/liabilities that are carried at fair value as at 31 December 2018 and 31 December 2017.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
31 December 2018			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	732,709	732,709	-
- Quoted outside Malaysia	109,339	109,339	-
Real estate investment trusts	8,431	8,431	-
Unit trust funds	190,348	190,348	-
Malaysian Government Securities	309,926	-	309,926
Government Investment Issues	133,622	-	133,622
Corporate debt securities			
- Unquoted	1,551,639	-	1,551,639
Accrued interest	22,358	-	22,358
	3,058,372	1,040,827	2,017,545
Financial assets at FVPTL			
Equity securities			
- Quoted in Malaysia	493,196	493,196	-
- Quoted outside Malaysia	4,886	4,886	-
Real estate investment trusts	5,786	5,786	-
Unit trust funds	124,739	124,739	-
Malaysian Government Securities	34,398	-	34,398
Government Investment Issues	23,388	-	23,388
Corporate debt securities			
- Unquoted	363,894	-	363,894
Mutual funds			
- Quoted outside Malaysia	496,354	496,354	-
Forward foreign exchange contract	3,958	-	3,958
Accrued interest	4,967	-	4,967
	1,555,566	1,124,961	430,605
	4,613,938	2,165,788	2,448,150
Financial liabilities at FVPTL			
Forward foreign exchange contract	116	-	116

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value hierarchy (continued)

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
31 December 2017			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	841,535	841,535	-
- Quoted outside Malaysia	39,690	39,690	-
Real estate investment trusts	6,496	6,496	-
Unit trust funds	193,259	193,259	-
Malaysian Government Securities	511,559	-	511,559
Government Investment Issues	183,893	-	183,893
Corporate debt securities			
- Unquoted	1,354,692	-	1,354,692
Accrued interest	21,498	-	21,498
	3,152,622	1,080,980	2,071,642
Financial assets at FVPTL			
Equity securities			
- Quoted in Malaysia	521,921	521,921	-
- Quoted outside Malaysia	12,663	12,663	-
Real estate investment trusts	7,543	7,543	-
Unit trust funds	59,370	59,370	-
Malaysian Government Securities	40,950	-	40,950
Government Investment Issues	24,302	-	24,302
Corporate debt securities			
- Unquoted	242,177	-	242,177
Mutual funds			
- Quoted outside Malaysia	618,047	618,047	-
Forward foreign exchange contract	4,284	-	4,284
Accrued interest	3,413	-	3,413
	1,534,670	1,219,544	315,126
	4,687,292	2,300,524	2,386,768

Unquoted equity securities of RM1,944,444 (31 December 2017: RM1,944,444) of the Company as disclosed in note 8(a) are not disclosed in the fair value hierarchy above as they are measured at cost as fair value is not readily available.

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

33. RISK MANAGEMENT

(a) Risk management framework

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

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

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

The Company’s risk taking activities are undertaken with the understanding that risk taking and effective risk management are necessary and integral to achieving strategic objectives and managing business operations.

The Company seeks to strategically optimise risk taking and risk management to support long term revenue and earnings growth, with the ultimate objective of increasing shareholder’s value. This is done by:

- Capitalising on business opportunities that are aligned with the Company’s overall risk appetite and return expectations;

- Identifying, measuring and assessing, and monitoring and reporting on principal risks under taken; and

- Proactively executing effective risk controls and mitigation programs.

33. RISK MANAGEMENT (CONTINUED)

(b) Regulatory framework

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

(c) Capital management

The Capital Management Plan is developed and endorsed by the Board. The plan lays out the management actions in response to various Capital Adequacy Ratio (CAR) scenarios. The Company manages its capital with the following objectives:

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

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

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

The capital structure of the Company as at 31 December 2018 and 31 December 2017, as prescribed under the Framework are as follows:

	2018 RM'000	2017 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	150,000	150,000
Retained earnings of the Company*	246,085	317,352
Eligible contract liabilities	587,546	634,240
	983,631	1,101,592
Eligible Tier 2 Capital		
Eligible reserves	38,672	121,114
Amounts deducted from capital	(20,273)	(22,217)
Total Capital Available	1,002,030	1,200,489

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

(d) Insurance risk

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

33. RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

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

The Company also limits its exposure to loss within the insurance operations through participation in reinsurance arrangements. For insurance contracts issued in 2018, the Company generally retains a maximum of RM300,000 for mortality risk per life for non-credit related products, RM50,000 for mortality risk per life for credit related products, RM300,000 for accelerated critical illness risk per life and RM200,000 for additional critical illness per life, with the excess being reinsured through surplus treaties, coinsurance treaties and facultative reinsurance treaties. The Company is neither dependent on a single reinsurer at this moment nor are the operations of the Company substantially dependent upon any reinsurance contract.

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

	Gross		Net	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Whole life	922,974	910,900	922,974	910,900
Endowment	691,737	598,987	691,737	598,987
Term	61,264	49,426	58,974	48,154
Annuity	206,181	203,212	206,181	203,212
Others	612,732	640,361	612,732	640,361
	2,494,888	2,402,886	2,492,598	2,401,614

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.

33. RISK MANAGEMENT (CONTINUED)

(d) Insurance risk (continued)

	Change in assumptions %	Impact on gross actuarial liabilities RM'000	Impact on net actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		Increase/(decrease)			
31 December 2018					
Mortality/morbidity	+10	17,283	13,969	(13,969)	(10,617)
Discount rate	-1	30,033	29,893	(29,893)	(22,719)
Expenses	+10	6,523	6,523	(6,523)	(4,958)
Lapse and surrender rates	+10	2,866	2,855	(2,855)	(2,170)
31 December 2017					
Mortality/morbidity	+10	12,712	10,174	(10,174)	(7,732)
Discount rate	-1	30,794	30,723	(30,723)	(23,349)
Expenses	+10	6,700	6,700	(6,700)	(5,092)
Lapse and surrender rates	+10	3,098	3,079	(3,079)	(2,340)

* Impact on equity is stated after considering tax effects

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

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

(e) Credit risk

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

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

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

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

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

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

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

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

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

The table below shows the Company’s maximum exposure to credit risk for the components in the statement of financial position by classifying financial and insurance 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.

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired						
	Rating (BBB to AAA)	Not rated	Not subject to credit risk	Past due but not impaired	Past due and impaired	Investment -linked funds	Total
31 December 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
AFS financial assets							
Equity securities	-	-	843,992	-	-	-	843,992
Real estate investment trusts	-	-	8,431	-	-	-	8,431
Unit trust funds	-	-	190,348	-	-	-	190,348
Malaysian Government Securities	-	309,926	-	-	-	-	309,926
Government Investment Issues	-	133,622	-	-	-	-	133,622
Corporate debt securities	1,205,626	346,013	-	-	-	-	1,551,639
Accrued interest	14,075	8,283	-	-	-	-	22,358
Financial assets at FVTPL - designated upon initial recognition							
Equity securities	-	-	-	-	-	498,082	498,082
Real estate investment trusts	-	-	-	-	-	5,786	5,786
Unit trust funds	-	-	-	-	-	124,739	124,739
Malaysian Government Securities	-	34,398	-	-	-	-	34,398
Government Investment Issues	-	23,388	-	-	-	-	23,388
Corporate debt securities	210,571	75,373	-	-	-	77,950	363,894
Mutual funds	-	-	-	-	-	496,354	496,354
Forward foreign exchange contract	-	-	-	-	-	3,958	3,958
Accrued interest	2,520	1,563	-	-	-	884	4,967
Loans and receivables							
Loans receivable	-	154,462	-	59	222	-	154,743
Fixed and call deposits	2,273	-	-	-	-	82,148	84,421
Other receivables	-	17,614	-	-	290	12,205	30,109
Reinsurance assets	4,159	5,349	-	-	-	-	9,508
Insurance receivables	-	24,344	-	-	1,063	-	25,407
Cash and cash equivalents	43,982	-	-	-	-	10,255	54,237
Allowance for impairment losses	-	-	-	-	(1,488)	-	(1,488)
Total financial and insurance assets	1,483,206	1,134,335	1,042,771	59	87	1,312,361	4,972,819

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

	Neither past-due nor impaired						
	Rating (BBB to AAA)	Not rated	Not subject to credit risk	Past due but not impaired	Past due and impaired	Investment -linked funds	Total
31 December 2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
AFS financial assets							
Equity securities	-	-	883,169	-	-	-	883,169
Real estate investment trusts	-	-	6,496	-	-	-	6,496
Unit trust funds	-	-	193,259	-	-	-	193,259
Malaysian Government Securities	-	511,559	-	-	-	-	511,559
Government Investment Issues	-	183,893	-	-	-	-	183,893
Corporate debt securities	993,222	361,470	-	-	-	-	1,354,692
Accrued interest	11,033	10,465	-	-	-	-	21,498
Financial assets at FVTPL - designated upon initial recognition							
Equity securities	-	-	-	-	-	534,584	534,584
Real estate investment trusts	-	-	-	-	-	7,543	7,543
Unit trust funds	-	-	-	-	-	59,370	59,370
Malaysian Government Securities	-	40,950	-	-	-	-	40,950
Government Investment Issues	-	24,302	-	-	-	-	24,302
Corporate debt securities	113,377	56,910	-	-	-	71,890	242,177
Mutual funds	-	-	-	-	-	618,047	618,047
Forward foreign exchange contract	-	-	-	-	-	4,284	4,284
Accrued interest	1,281	1,408	-	-	-	724	3,413
Loans and receivables							
Loans receivable	-	163,482	-	56	588	-	164,126
Fixed and call deposits	4,934	-	-	-	-	108,417	113,351
Other receivables	-	15,207	-	-	290	15,485	30,982
Reinsurance assets	4,070	2,342	-	-	-	-	6,412
Insurance receivables	-	23,971	-	-	1,065	-	25,036
Cash and cash equivalents	82,932	-	-	-	-	2,896	85,828
Allowance for impairment losses	-	-	-	-	(1,721)	-	(1,721)
Total financial and insurance assets	1,210,849	1,395,959	1,082,924	56	222	1,423,240	5,113,250

33. RISK MANAGEMENT (CONTINUED

(e) Credit risk (continued)

Age analysis of financial assets past-due but not impaired

	< 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	91 to 180 days RM'000	Over 180 days RM'000	Total RM'000
31 December 2018						
Loans receivable	-	-	-	-	59	59
	-	-	-	-	59	59
31 December 2017						
Loans receivable	-	-	-	-	56	56
	-	-	-	-	56	56

33. RISK MANAGEMENT (CONTINUED)

(e) Credit risk (continued)

Impaired financial assets

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

	Loans receivable RM'000	Insurance receivables RM'000	Other receivables RM'000	Total RM'000
At 1 January 2018	366	1,065	290	1,721
Reversal of impairment losses during the financial year	(231)	(2)	-	(233)
At 31 December 2018	135	1,063	290	1,488
At 1 January 2017	328	1,066	287	1,681
Allowance for/(reversal of) impairment losses during the financial year	38	(1)	3	40
At 31 December 2017	366	1,065	290	1,721

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

(f) Market risk

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

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

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

33. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(i) Currency risk

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

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

Exposure to foreign currency risk

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

	Denominated in USD	
	2018	**2017**
	RM'000	**RM'000**
Amount due from related parties	475	4,109
Cash and cash equivalents	6,591	14,225
	7,066	18,334

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

		Impact on profit before tax/equity Increase/(decrease)	
		2018	**2017**
		RM'000	**RM'000**
Changes in foreign currency rates			
USD	+ 5%	353	917
USD	- 5%	(353)	(917)

(ii) Interest rate risk

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

33. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(ii) Interest rate risk (continued)

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

	Impact on profit before tax Increase/(decrease)		Impact on equity* (Decrease)/increase	
	2018	2017	2018	2017
Change in variable:	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Interest rate				
+ 100 basis point	(343)	6,921	(16,638)	(13,215)
- 100 basis point	(1,433)	(10,651)	17,334	12,701

* Impact on equity is stated after considering tax effects

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

(iii) Price risk

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

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

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

33. RISK MANAGEMENT (CONTINUED)

(f) Market risk (continued)

(iii) Price risk (continued)

	Impact on profit before tax		Impact on equity*	
	Increase/(decrease)		Increase/(decrease)	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Change in variable:				
Market price				
+15%	-	-	31,843	27,225
- 15%	-	-	(31,843)	(27,225)

* Impact on equity is stated after considering tax effects

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

(g) Liquidity risk

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

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

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

The table below analyses the Company's financial and insurance assets and financial and insurance liabilities into their relevant maturity groups based on the remaining undiscounted contractual obligations.

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

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

33. RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

31 December 2018	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Investment-linked funds RM'000	Total RM'000
Equity securities	1,342,074	-	-	-	-	843,992	498,082	1,342,074
Real estate investment trusts	14,217	-	-	-	-	8,431	5,786	14,217
Malaysian Government Securities	344,324	15,733	31,360	31,360	564,913	-	-	643,366
Government Investment Issues	157,010	7,406	14,811	14,811	254,065	-	-	291,093
Corporate debt securities	1,915,533	182,323	373,189	421,566	1,561,397	-	77,950	2,616,425
Unit trust funds	315,087	-	-	-	-	190,348	124,739	315,087
Mutual funds	496,354	-	-	-	-	-	496,354	496,354
Forward foreign exchange contract	3,958	-	-	-	-	-	3,958	3,958
Accrued interest								
- AFS financial assets	22,358	22,358	-	-	-	-	-	22,358
- FVTPL financial assets	4,967	4,083	-	-	-	-	884	4,967
Loans receivable	154,608	661	655	366	695	152,365	-	154,742
Fixed and call deposits	84,421	2,273	-	-	-	-	82,148	84,421
Other receivables	29,819	17,224	-	-	390	-	12,205	29,819
Reinsurance assets	9,508	9,508	-	-	-	-	-	9,508
Insurance receivables	24,344	24,344	-	-	-	-	-	24,344
Cash and cash equivalents	54,237	43,982	-	-	-	-	10,255	54,237
Total financial and insurance assets	4,972,819	329,895	420,015	468,103	2,381,460	1,195,136	1,312,361	6,106,970
Insurance contract liabilities	3,864,705	135,983	230,701	397,967	5,077,327	-	1,301,629	7,143,607
Insurance claims liabilities	55,014	55,014	-	-	-	-	-	55,014
Forward foreign exchange contract	116	-	-	-	-	-	116	116
Insurance payables	557,957	557,957	-	-	-	-	-	557,957
Other payables	103,699	89,844	-	-	-	-	13,855	103,699
Total financial and insurance liabilities	4,581,491	838,798	230,701	397,967	5,077,327	-	1,315,600	7,860,393

33. RISK MANAGEMENT (CONTINUED)

(g) Liquidity risk (continued)

31 December 2017	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Investment-linked funds RM'000	Total RM'000
Equity securities	1,417,753	-	-	-	-	883,169	534,584	1,417,753
Real estate investment trusts	14,039	-	-	-	-	6,496	7,543	14,039
Malaysian Government Securities	552,509	23,805	47,657	47,605	801,420	-	-	920,487
Government Investment Issues	208,195	9,412	19,246	23,793	301,143	-	-	353,594
Corporate debt securities	1,596,869	177,202	344,499	347,592	1,251,774	-	71,890	2,192,957
Unit trust funds	252,629	-	-	-	-	193,259	59,370	252,629
Mutual funds	618,047	-	-	-	-	-	618,047	618,047
Forward foreign exchange contract	4,284	-	-	-	-	-	4,284	4,284
Accrued interest								
- AFS financial assets	21,498	21,498	-	-	-	-	-	21,498
- FVTPL financial assets	3,413	2,689	-	-	-	-	724	3,413
Loans receivable	163,760	758	1,177	758	692	160,384	-	163,769
Fixed and call deposits	113,351	4,934	-	-	-	-	108,417	113,351
Other receivables	30,692	14,817	-	-	390	-	15,485	30,692
Reinsurance assets	6,412	6,412	-	-	-	-	-	6,412
Insurance receivables	23,971	23,971	-	-	-	-	-	23,971
Cash and cash equivalents	85,828	82,932	-	-	-	-	2,896	85,828
Total financial and insurance assets	5,113,250	368,430	412,579	419,748	2,355,419	1,243,308	1,423,240	6,222,724
Insurance contract liabilities	3,948,040	203,275	174,111	358,059	5,381,626	-	1,394,287	7,511,358
Insurance claims liabilities	56,489	56,489	-	-	-	-	-	56,489
Insurance payables	526,936	526,936	-	-	-	-	-	526,936
Other payables	88,639	74,755	-	-	-	-	13,884	88,639
Total financial and insurance liabilities	4,620,104	861,455	174,111	358,059	5,381,626	-	1,408,171	8,183,422

33. RISK MANAGEMENT (CONTINUED)

(h) Operational risk

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

34. CAPITAL AND OTHER COMMITMENTS

	2018 RM'000	2017 RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	13,500	16,500

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

35. INSURANCE FUNDS

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

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

Statement of Financial Position by Funds

31 December 2018	Shareholder’s fund RM’000	Insurance funds: Life fund RM’000	Insurance funds: Investment-linked funds RM’000	Elimination RM’000	Total RM’000
Assets					
Property and equipment	-	17,113	-	-	17,113
Investment properties	-	51,105	-	-	51,105
Intangible assets	15,197	4,626	-	-	19,823
Loans and receivables	127,783	171,791	94,353	(121,907)	272,020
Available-for-sale financial assets	346,506	2,713,810	-	-	3,060,316
Financial assets at fair value through profit or loss	-	347,813	1,207,753	-	1,555,566
Reinsurance assets	-	9,508	-	-	9,508
Insurance receivables	-	24,344	-	-	24,344
Current tax assets	2,057	3,323	(122)	-	5,258
Cash and cash equivalents	6,993	36,989	10,255	-	54,237
Total assets	498,536	3,380,422	1,312,239	(121,907)	5,069,290
Equity, Policyholders’ Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	314,737	-	-	-	314,737
Fair value reserve	6,183	-	-	-	6,183
Total equity	470,920	-	-	-	470,920
Insurance contract liabilities	-	2,563,076	1,301,629	-	3,864,705
Insurance claims liabilities	-	55,014	-	-	55,014
Financial liabilities at fair value through profit or loss	-	-	116	-	116
Deferred tax liabilities	21,718	(1,478)	(3,361)	-	16,879
Insurance payables	-	557,957	-	-	557,957
Other payables	5,898	205,853	13,855	(121,907)	103,699
Total equity, policyholders' funds and liabilities	498,536	3,380,422	1,312,239	(121,907)	5,069,290

35. INSURANCE FUNDS (CONTINUED)

Statement of Financial Position by Funds (continued)

31 December 2017	Shareholder's fund RM'000	Insurance funds: Life fund RM'000	Insurance funds: Investment-linked funds RM'000	Elimination RM'000	Total RM'000
Assets					
Property and equipment	-	17,544	-	-	17,544
Investment properties	-	51,486	-	-	51,486
Intangible assets	18,410	4,751	-	-	23,161
Loans and receivables	131,563	182,491	123,902	(129,465)	308,491
Available-for-sale financial assets	409,524	2,745,042	-	-	3,154,566
Financial assets at fair value through profit or loss	-	238,228	1,296,442	-	1,534,670
Reinsurance assets	-	6,412	-	-	6,412
Insurance receivables	-	23,971	-	-	23,971
Cash and cash equivalents	10,288	72,644	2,896	-	85,828
Total assets	569,785	3,342,569	1,423,240	(129,465)	5,206,129
Equity, Policyholders' Funds and Liabilities					
Share capital	150,000	-	-	-	150,000
Retained earnings	386,340	-	-	-	386,340
Fair value reserve	10,850	-	-	-	10,850
Total equity	547,190	-	-	-	547,190
Insurance contract liabilities	-	2,553,753	1,394,287	-	3,948,040
Insurance claims liabilities	-	56,489	-	-	56,489
Deferred tax liabilities	22,275	6,495	7,656	-	36,426
Insurance payables	-	526,936	-	-	526,936
Current tax liabilities	(2,942)	(2,062)	7,413		2,409
Other payables	3,262	200,958	13,884	(129,465)	88,639
Total equity, policyholders' funds and liabilities	569,785	3,342,569	1,423,240	(129,465)	5,206,129

35. INSURANCE FUNDS (CONTINUED)

Statement of Profit or Loss by Funds

2018	Shareholder's fund RM'000	Insurance funds: Life fund RM'000	Insurance funds: Investment-linked funds RM'000	Elimination RM'000	Total RM'000
Premium income					
Gross premiums	-	576,156	327,630	(1,343)	902,443
Premiums ceded to reinsurers	-	(47,927)	-	-	(47,927)
Net premiums	-	528,229	327,630	(1,343)	854,516
Investment income	16,998	136,331	32,812	-	186,141
Net realised gains	326	35,979	-	-	36,305
Net fair value losses	(2,434)	(50,373)	(158,609)	-	(211,416)
Fee income	-	19,423	-	(15,011)	4,412
Other operating income	-	132	2,249	-	2,381
Total revenue	14,890	669,721	204,082	(16,354)	872,339
Gross benefits and claims paid and payable	-	(373,796)	(297,245)	-	(671,041)
Claims ceded to reinsurers	-	13,790	-	-	13,790
Gross change in contract liabilities	-	(87,098)	92,658	-	5,560
Change in insurance contract liabilities ceded to reinsurers	-	1,018	-	-	1,018
Net claims	-	(446,086)	(204,587)	-	(650,673)
Fee and commission expenses	-	(58,825)	-	-	(58,825)
Investment expenses	(851)	(8,632)	-	-	(9,483)
Management expenses	(12,397)	(101,460)	(19,205)	16,417	(116,645)
Other operating (expenses)/income	(4,714)	(12,702)	19,710	(63)	2,231
Other expenses	(17,962)	(181,619)	505	16,354	(182,722)
(Loss)/profit from operations	(3,072)	42,016	-	-	38,944
Transfer from/(to) revenue account	42,016	(42,016)	-	-	-
Profit before taxation	38,944	-	-	-	38,944
Taxation	(10,547)	-	-	-	(10,547)
Net profit for the financial year	28,397	-	-	-	28,397

35. INSURANCE FUNDS (CONTINUED)

Statement of Profit or Loss by Funds (continued)

2017	Shareholder's fund RM'000	Insurance funds: Life fund RM'000	Insurance funds: Investment-linked funds RM'000	Elimination RM'000	Total RM'000
Premium income					
Gross premiums	-	553,841	344,037	(1,503)	896,375
Premiums ceded to reinsurers	-	(38,895)	-	-	(38,895)
Net premiums	-	514,946	344,037	(1,503)	857,480
Investment income	17,058	132,690	29,399	-	179,147
Net realised gains	2,150	46,520	-	-	48,670
Net fair value (losses)/ gains	(482)	(10,582)	171,229	-	160,165
Fee income	-	18,388	-	(13,621)	4,767
Other operating income	-	137	2,038	-	2,175
Total revenue	18,726	702,099	546,703	(15,124)	1,252,404
Gross benefits and claims paid	-	(376,617)	(270,787)	-	(647,404)
Claims ceded to reinsurers	-	13,252	-	-	13,252
Gross change in contract liabilities	-	(97,529)	(196,792)	-	(294,321)
Change in insurance contract liabilities ceded to reinsurers	-	(3,213)	-	-	(3,213)
Net claims	-	(464,107)	(467,579)	-	(931,686)
Fee and commission expenses	-	(64,241)	-	-	(64,241)
Investment expenses	(887)	(8,710)	-	-	(9,597)
Management expenses	(12,118)	(98,890)	(17,057)	15,108	(112,957)
Other operating expenses	(5,826)	(13,191)	(62,067)	16	(81,068)
Other expenses	(18,831)	(185,032)	(79,124)	15,124	(267,863)
(Loss)/profit from operations	(105)	52,960	-	-	52,855
Transfer from/(to) revenue account	52,960	(52,960)	-	-	-
Profit before taxation	52,855	-	-	-	52,855
Taxation	(13,428)	-	-	-	(13,428)
Net profit for the financial year	39,427	-	-	-	39,427

35. INSURANCE FUNDS (CONTINUED)

Information on cash flows by Funds

		Insurance funds		
	Shareholder's fund	Life fund	Investment-linked funds	Total
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash flows from:				
Operating activities	96,705	(34,634)	7,359	69,430
Investing activities	-	(1,021)	-	(1,021)
Financing activities	(100,000)	-	-	(100,000)
Net (decrease)/increase in cash and cash equivalents	(3,295)	(35,655)	7,359	(31,591)
At beginning of financial year	10,288	72,644	2,896	85,828
At end of financial year	6,993	36,989	10,255	54,237
2017				
Cash flows from:				
Operating activities	1,267	(3,089)	(1,775)	(3,597)
Investing activities	-	(1,656)	-	(1,656)
Net increase/(decrease) in cash and cash equivalents	1,267	(4,745)	(1,775)	(5,253)
At beginning of financial year	9,021	77,389	4,671	91,081
At end of financial year	10,288	72,644	2,896	85,828

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

As discussed in note 2(a)(i), the Company will be deferring the adoption of MFRS 9 as allowed under Amendments to MFRS 4. In order to compare with entities applying MFRS 9, the amendments require deferring entities to disclose additional information including contractual cash flows characteristics and credit exposure of the financial assets. The following table presents the Company's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

For the financial year ended 31 December 2018	Fair value as at 1 January 2018 RM'000	Change in fair value* RM'000	Fair value as at 31 December 2018 RM'000	Result of the cash flows characteristics test	Classification and measurement under MFRS 9
Financial assets					
Equity securities					
- Quoted in Malaysia	1,363,456	(137,551)	1,225,905	Non-SPPI	FVTPL
- Quoted outside Malaysia	52,353	61,872	114,225	Non-SPPI	FVTPL
- Unquoted	1,944	-	1,944	Non-SPPI	FVTPL
Real estate investment trusts	14,039	178	14,217	Non-SPPI	FVTPL
Unit trust funds	252,629	62,458	315,087	Non-SPPI	FVTPL
Malaysian Government Securities	552,509	(208,185)	344,324	SPPI	FVOCI
Government Investment Issues	208,195	(51,185)	157,010	SPPI	FVOCI
Corporate debt securities					
- Unquoted	1,596,869	318,664	1,915,533	SPPI	FVOCI
Mutual funds	618,047	(121,693)	496,354	Non-SPPI	FVTPL
Forward foreign exchange contract	4,284	(326)	3,958	Non-SPPI	FVTPL
Accrued interest	24,911	2,414	27,325	SPPI	FVOCI
Loans and receivables	307,803	(38,955)	268,848	SPPI	Amortised cost
Insurance receivables	23,971	373	24,344	SPPI	Amortised cost
Cash and cash equivalents	85,828	(31,591)	54,237	SPPI	Amortised cost
	5,106,838	(143,527)	4,963,311		

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

36. Additional disclosures under Amendments to MFRS 4 Insurance Contract Liabilities (Continued)

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

	AAA RM'000	AA RM'000	A RM'000	Non-rated RM'000	Total RM'000
As at 31 December 2018					
Financial assets					
Malaysian Government Securities	-	-	-	344,324	344,324
Government Investment Issues	-	-	-	157,010	157,010
Corporate debt securities - Unquoted	934,487	549,712	9,162	422,172	1,915,533
Accrued interest	12,069	5,307	90	9,859	27,325
Loans and receivables	82,571	1,851	-	184,426	268,848
Insurance receivables	-	6,797	-	17,547	24,344
Cash and cash equivalents	46,100	10	8,084	43	54,237
	1,075,227	563,677	17,336	1,135,381	2,791,621