

MANULIFE HOLDINGS BERHAD

Interim financial statements for the three months period ended 31 March 2013

Notes to the Interim Financial Statements

1. Basis of preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standard (“MFRS”) 134, “Interim Financial Reporting” and paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”), and should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2012, which were prepared in accordance with the Malaysian Financial Reporting Standards.

The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2012.

2. Significant accounting policies

The accounting policies and presentation adopted by the Group for the quarterly financial statements are consistent with those adopted in the Group’s consolidated audited financial statements for the financial year ended 31 December 2012, except for the adoption of the following:

<u>MFRSs/Interpretations</u>	<u>Effective Date</u>
MFRS 3 “Business Combinations”	1 January 2013
MFRS 7 “Financial instruments: Disclosures”	1 January 2013
MFRS 10 “Consolidated financial statements”	1 January 2013
MFRS 12 “Disclosure of interest in other entities”	1 January 2013
MFRS 13 “Fair value measurement”	1 January 2013
MFRS 101 “Presentation of items of other comprehensive income”	1 January 2013
MFRS 119 “Employee benefits”	1 January 2013
MFRS 127 “Separate financial statements”	1 January 2013

The adoption of the revised standards, amendments and interpretations issued by Malaysian Accounting Standards Board (“MASB”) in the current financial year do not have any material impact to the financial statements of the Group.

As at the date of authorisation of these interim financial statements, the revised MFRSs, amendments to MFRSs and IC Interpretations but not yet effective issued by MASB in the current year is not expected to have any material impact on the financial statements of the Group.

3. Status of audit qualification

There was no audit qualification in the annual financial statements for the preceding financial year ended 31 December 2012.

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Notes to the Interim Financial Statements (Continued)

4. Seasonal/cyclical factors

The business operations of the Group are subject to the sales cycle of the insurance business and wealth business.

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 31 March 2013.

6. Change in estimates

There were no changes in the basis used for accounting estimates for the current financial period to date.

7. Debt and equity securities

There were no issuances, cancellation, repurchases, resale and repayment of debt and equity securities during the current financial period ended 31 March 2013.

8. Proposed dividends

The directors recommended the payment of a first and final dividend of 15 sen per share, less 25% tax, amounting to RM22,766,625 for the financial year ended 31 December 2012, which is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting.

No dividend has been declared in respect of the current financial period ended 31 March 2013.

9. Material events subsequent to the end of the financial period

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

10. Changes in composition of the Group

There is no change in the Group's composition for the current financial period ended 31 March 2013.

11. Contingent liabilities

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

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12. Current year prospects

Despite the uncertain global economic recovery as well as heightened concerns of recession in Europe, the economic growth is expected to continue in Malaysia, though at a moderate rate. We will execute our business expansion per plan which rides on various initiatives undertaken by the Government. The Group will take a holistic customer-centric approach when offering forward thinking solutions that will help our customers' most significant financial decisions. Nevertheless, the Group will remain prudent in its utilisation and management of resources along the growth journey.

After MAMSB commenced the operation of Private Retirement Scheme ("PRS") in November 2012, the Group will have access to a new avenue that helps to build on the Asset Under Management ("AUM") and improve profitability from better economies of scale. The Group will bring in more new funds to broaden the existing investment platform.

Manulife Malaysia is celebrating its 50th anniversary in 2013. As a total financial solutions provider offering a range of innovative products from living benefits to retirement solutions, our strategic plans will enhance the Group's competitiveness in the insurance, unit trust and asset management industries.

Barring any unforeseen circumstances, the Directors expect the Group's performance to remain satisfactory in the current financial year ending 31 December 2013 as the Group embarks on its business expansion.

13. Profit forecast

The Group did not issue any profit forecast during the financial period to date.

14. Group borrowings

The Group does not have any borrowings as at 31 March 2013.

15. Material litigation

There is no material litigation as at the date of this report since the date of the last annual statement of financial position.

16. Status of corporate proposal

As at the date of this report, there are no corporate proposals that have been announced but not completed.

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Notes to the Interim Financial Statements (Continued)

17. Operating segments

The core businesses of the Group are the life insurance business, management of unit trust funds, private retirement scheme funds, investments and fund management. Segment information is presented in respect of the Group's business segments which are as follows:

Investment holding : Investment holding operations
 Life insurance : Underwriting of Participating and Non-participating life insurance and unit-linked products
 Others : Asset management, unit trust, private retirement scheme funds and other segments

	Cumulative 3 months ended 31 March							
	Investment holding		Life insurance business		Others		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>External revenue</u>								
(a) Premium Income								
Gross premiums	-	-	118,193	111,984	-	-	118,193	111,984
Premiums ceded to reinsurers	-	-	(2,545)	(2,259)	-	-	(2,545)	(2,259)
Net premiums	-	-	115,648	109,725	-	-	115,648	109,725
(b) Investment income	2,037	2,612	32,364	33,800	333	185	34,734	36,597
(c) Fee income	-	-	-	-	469	322	469	322
(d) Net realised gains	236	169	7,935	12,608	-	-	8,171	12,777
(e) Net fair value (losses)/gains	-	(11)	-	20,136	-	-	-	20,125
(f) Other operating income	2	5	1,491	248	-	(7)	1,493	246
Total external revenue	2,275	2,775	157,438	176,517	802	500	160,515	179,792
<u>Inter-segment revenue</u>								
(a) Rental income	186	186	93	93	-	-	279	279
(b) Fee income	-	333	-	-	1,687	1,681	1,687	2,014
Total inter-segment revenue	186	519	93	93	1,687	1,681	1,966	2,293
Total revenue by segment	2,461	3,294	157,531	176,610	2,489	2,181	162,481	182,085
Profit/(loss) before taxation	220	1,613	7,992	16,419	(2,233)	139	5,979	18,171
Segment assets	380,694	404,134	3,815,150	3,609,416	93,622	62,953	4,289,466	4,076,503
Segment liabilities	10,300	10,973	3,289,957	3,128,286	10,894	1,995	3,311,151	3,141,254

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Notes to the Interim Financial Statements (Continued)

17. Operating segments (continued)

Reconciliation of reportable segments

	<u>Cumulative 3 months ended</u>	
	<u>31.03.2013</u>	<u>31.03.2012</u>
	<u>RM'000</u>	<u>RM'000</u>
<u>Total revenue</u>		
Total revenue for reportable segments	162,481	182,085
Elimination of inter-segment revenue	(1,966)	(2,293)
Total revenue as per statement of comprehensive income	<u>160,515</u>	<u>179,792</u>
	As at	As at
	31.03.2013	31.03.2012
	RM'000	RM'000
<u>Segment assets</u>		
Total assets for reportable segments	4,289,466	4,076,503
Elimination of inter-segment assets	(247,612)	(224,709)
Total assets as per statement of financial position	<u>4,041,854</u>	<u>3,851,794</u>
<u>Segment liabilities</u>		
Total liabilities for reportable segments	3,311,151	3,141,254
Elimination of inter-segment liabilities	(11,652)	(16,573)
Total liabilities as per statement of financial position	<u>3,299,499</u>	<u>3,124,681</u>

18. Review of performance

The management uses operating revenue as a measure of performance for each operating segment. Operating revenue for each reportable segment consists of gross premiums, investment income and fee income.

1st Quarter 2013 vs 1st Quarter 2012

The Group achieved an operating revenue of RM153.4 million for the quarter ended 31 March 2013, an increase of 3.02% or RM4.5 million compared to the corresponding quarter ended 31 March 2012 of RM148.9 million. The Group's profit before tax was RM6.0 million for the current quarter, RM12.2 million lower as compared to the profit before tax in the corresponding quarter ended 31 March 2012 of RM18.2 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue of the investment holding was lower in current quarter as compared to the preceding year's corresponding quarter due to lower interest income from fixed income securities. Profit before tax decreased by RM1.4 million mainly caused by decrease in investment income and higher management expenses incurred in IT infrastructure enhancement and staff related expenses.

Life insurance business – Operating revenue of the life insurance business increased by RM4.8 million (2013: RM150.6 million, 2012: RM145.8 million) mainly due to higher gross premiums from both investment-linked and non-participating life business during the current quarter. Profit before tax was lower in the current quarter mainly due to higher management expenses from overall business expansion as well as improved IT infrastructure enhancement.

Other business – Operating revenue slightly increase in the current quarter (2013: RM0.8 million) as compared to the corresponding quarter in the preceding year (2012: RM0.5 million) mainly contributed by higher management fee income earned on higher AUM and higher interest income. However, there was a loss before tax of RM2.2 million in the current quarter as compared to profit before tax of RM0.1 million in first quarter 2012. This was mainly attributable to the higher management expenses driven by increase in staff force to support the PRS business launched in November 2012.

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Notes to the Interim Financial Statements (Continued)**19. Material changes in the quarterly results compared to the results of preceding quarter**

The Group attained lower profit before tax of RM6.0 million for the current quarter under review as compared to the profit before tax of RM8.7 million in preceding quarter ended 31 December 2012. The decrease of RM2.7 million was mainly attributable to the lower surplus transfer from participating life business and reserve strengthening as a result of lower interest rate.

20. Net premiums

Net premiums which are stated net of reinsurance expenses comprise the following:-

	3 months ended		Cumulative 3 months ended	
	31.03.2013	31.03.2012	31.03.2013	31.03.2012
	RM'000	RM'000	RM'000	RM'000
First year premium	13,865	13,428	13,865	13,428
Renewal year premium	99,855	94,670	99,855	94,670
Single premium	1,928	1,627	1,928	1,627
Total	115,648	109,725	115,648	109,725

21. Investment income

	3 months ended		Cumulative 3 months ended	
	31.03.2013	31.03.2012	31.03.2013	31.03.2012
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- designated upon initial recognition				
Interest/profit income	3,988	3,831	3,988	3,831
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	1,007	767	1,007	767
- quoted outside Malaysia	7	-	7	-
Accretion of discounts, net of amortisation of premiums	163	115	163	115
<u>AFS financial assets</u>				
Interest/profit income	17,818	17,237	17,818	17,237
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	2,998	4,910	2,998	4,910
- unquoted	-	35	-	35
Accretion of discounts, net of amortisation of premiums	787	766	787	766
<u>Loans and receivables</u>				
Interest/profit income	5,603	6,392	5,603	6,392
Accretion of discounts, net of amortisation of premiums	596	568	596	568
<u>Investment properties</u>				
Rental income	1,625	1,663	1,625	1,663
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	142	313	142	313
	34,734	36,597	34,734	36,597

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Notes to the Interim Financial Statements (Continued)

22. Other operating expenses

	3 months ended		Cumulative 3 months ended	
	31.03.2013	31.03.2012	31.03.2013	31.03.2012
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange losses	-	3,132	-	3,132
Interest expense on agent's bond withheld	7	8	7	8
Others	593	-	593	-
Tax on investment income of Life fund and Investment- linked funds				
- Current tax	2,630	2,995	2,630	2,995
- Deferred tax	(116)	1,308	(116)	1,308
	2,514	4,303	2,514	4,303
	<u>3,114</u>	<u>7,443</u>	<u>3,114</u>	<u>7,443</u>

The income tax for the Life fund and Investment-linked funds of the Group's insurance subsidiary is calculated based on the tax rate of 8% (2012: 8%) of the assessable investment income, net of allowable deductions for the financial period.

23. Profit before taxation

	3 months ended		Cumulative 3 months ended	
	31.03.2013	31.03.2012	31.03.2013	31.03.2012
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	316	195	316	195
Depreciation of property and equipment	522	482	522	482
Investment income (Note 21)	(34,374)	(36,597)	(34,374)	(36,597)
Net foreign exchange (gains)/losses	(1,252)	3,132	(1,252)	3,132
Net realised gains				
- realised gains on disposal of AFS investments	(8,171)	(12,777)	(8,171)	(12,777)
	(8,171)	(12,777)	(8,171)	(12,777)
Net fair value losses/(gains)				
- fair value gains on FVTPL investments	(438)	(20,362)	(438)	(20,362)
- impairment loss on quoted equities	570	237	570	237
	132	(20,125)	132	(20,125)

Other than the above, there was no gain or loss on derivatives for the current quarter ended 31 March 2013.

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Notes to the Interim Financial Statements (Continued)**24. Taxation**

	3 months ended		Cumulative 3 months ended	
	31.03.2013	31.03.2012	31.03.2013	31.03.2012
	RM'000	RM'000	RM'000	RM'000
<u>Income tax</u>				
Current tax	1,848	4,061	1,848	4,061
<u>Deferred tax</u>				
Origination and reversal of temporary differences	91	(26)	91	(26)
Over provision in prior financial year	(3)	(3,026)	(3)	(3,026)
	88	(3,052)	88	(3,052)
	1,936	1,009	1,936	1,009

The income tax for the Group is calculated based on the tax rate of 25% (2012: 25%) of the estimated assessable profit for the financial year.

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

	3 months ended		Cumulative 3 months ended	
	31.03.2013	31.03.2012	31.03.2013	31.03.2012
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	5,979	18,171	5,979	18,171
Taxation at Malaysian statutory tax rate of 25%	1,494	4,543	1,494	4,543
Section 110B tax credit set off	(449)	(598)	(449)	(598)
Income not subject to tax	(103)	(281)	(103)	(281)
Expenses not deductible for tax purposes	400	371	400	371
Unrecognised deferred tax assets	597	-	597	-
	1,939	4,035	1,939	4,035
Over provision in prior financial year				
- Deferred tax	(3)	(3,026)	(3)	(3,026)
	1,936	1,009	1,936	1,009

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Notes to the Interim Financial Statements (Continued)**25. Earnings per share****(a) Basic earnings per share**

Basic earnings per share of the Group are calculated by dividing the net profit attributable to ordinary equity holders for the financial period by the weighted average number of ordinary shares in issue.

		3 months ended		Cumulative 3 months ended	
		31.03.2013	31.03.2012	31.03.2013	31.03.2012
Net profit attributable to shareholders	(RM'000)	4,043	17,162	4,043	17,162
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic earnings per share	(Sen)	2.00	8.48	2.00	8.48

(b) Diluted earnings per share

There is no dilution in earnings per share as there are no dilutive potential ordinary shares as at 31 March 2013.

26. Insurance contract liabilities

The insurance contract liabilities as at the date of the statement of financial position comprise the following:

	As at 31.03.2013	As at 31.12.2012
	RM'000	RM'000
Actuarial liabilities	2,161,096	2,138,525
Unallocated surplus	51,972	63,224
Fair value reserve	157,693	169,522
Investment-linked policyholders' account	442,969	432,416
	<u>2,813,730</u>	<u>2,803,687</u>

27. Cash and cash equivalents

Cash and cash equivalents as at the date of statement of financial position comprise the following:

	As at 31.03.2013	As at 31.12.2012
	RM'000	RM'000
Shareholders and others	32,941	20,553
Non Investment-linked business	19,941	23,714
Investment-linked business	1,635	2,512
	<u>54,517</u>	<u>46,779</u>

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Notes to the Interim Financial Statements (Continued)**28. Disclosure of realised and unrealised earnings**

Pursuant to the directives and guidance issued by Bursa Malaysia on 20 December 2010, the breakdown of the Group's retained earnings into realised and unrealised earnings is analysed as follows:

	As at 31.03.2013	As at 31.12.2012
	RM'000	RM'000
Total retained earnings of the Group:		
- Realised	486,083	481,113
- Unrealised	92,570	93,497
	<u>578,653</u>	<u>574,610</u>
Consolidation adjustments	24,124	24,124
Total retained earnings as per statement of financial position	<u><u>602,777</u></u>	<u><u>598,734</u></u>

The analysis of realised and unrealised earnings is made reference to the Guidance On Special Matter No. 1 "*Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*" issued by the Malaysian Institute of Accountants on 20 December 2010.

This note should be read in conjunction with the Consolidated Statement of Changes in Equity.

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
16 May 2013

Chin Mun Yee
Joint Secretary