

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

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 30 June 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 30 June 2013.

8. Proposed dividends

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, was approved at the Annual General Meeting held on 26 June 2013 and the dividend was paid on 16 July 2013.

No dividend has been declared in respect of the current financial period ended 30 June 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 30 June 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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)

12. Current year prospects

Although the the global economic growth momentum slowed down and the continuation of Quantitative Easing remained uncertain, the economic growth trend in Malaysia is expected to persist at a moderate rate. We will execute our business expansion per plan which rides on various initiatives undertaken by the Government. The Group takes 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.

With the new 10-year strategic bancassurance relationship with Alliance Bank Malaysia Berhad ("ABMB"), we will market, promote and sell life insurance products to ABMB's customers. It also broadens the existing distribution which will enhance the economies of scale and profitability. We launched a suite of new products that are tailor made for ABMB's customers.

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 30 June 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.

17. Significant event

On 13 June 2013, the insurance subsidiary of the Group signed a 10-year strategic bancassurance agreement with ABMB.

Total consideration under this exclusive agreement amounts up to RM70 million. As of 30 June 2013, RM30 million was paid and was capitalised. The amount capitalised will be amortised over the duration of the agreement.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)

18. 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 6 months ended 30 June							
	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	-	-	250,361	235,258	-	-	250,361	235,258
Premiums ceded to reinsurers	-	-	(5,101)	(4,817)	-	-	(5,101)	(4,817)
Net premiums	-	-	245,260	230,441	-	-	245,260	230,441
(b) Investment income	5,294	5,225	72,547	72,354	874	364	78,715	77,943
(c) Fee income	-	-	-	-	938	669	938	669
(d) Net realised gains	1,029	1,847	40,680	26,783	-	-	41,709	28,630
(e) Net fair value (losses)/gains	(96)	(33)	28,862	23,184	-	-	28,766	23,151
(f) Other operating income	-	6	474	497	(3)	-	471	503
Total external revenue	6,227	7,045	387,823	353,259	1,809	1,033	395,859	361,337
<u>Inter-segment revenue</u>								
(a) Rental income	371	371	185	185	-	-	556	556
(b) Fee income	252	608	-	-	3,428	3,441	3,680	4,049
(c) Dividend Income	200,010	-	-	-	-	-	200,010	-
(d) Net realised gains	87	-	24	-	-	-	111	-
Total inter-segment revenue	200,720	979	209	185	3,428	3,441	204,357	4,605
Total revenue by segment	206,947	8,024	388,032	353,444	5,237	4,474	600,216	365,942
Profit/(loss) before taxation	2,585	4,027	27,779	25,867	(4,384)	(7)	25,980	29,887
Segment assets	583,566	406,576	3,750,644	3,666,600	132,306	62,166	4,466,516	4,135,342
Segment liabilities	34,760	39,191	3,415,416	3,177,623	51,635	1,458	3,501,811	3,218,272

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 6 months ended	
	30.06.2013	30.06.2012
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	600,216	365,942
Elimination of inter-segment revenue	(204,357)	(4,605)
Total revenue as per statement of comprehensive income	395,859	361,337
	As at	As at
	30.06.2013	30.06.2012
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	4,466,516	4,135,342
Elimination of inter-segment assets	(287,395)	(213,999)
Total assets as per statement of financial position	4,179,121	3,921,343
Segment liabilities		
Total liabilities for reportable segments	3,501,811	3,218,272
Elimination of inter-segment liabilities	(53,329)	(7,801)
Total liabilities as per statement of financial position	3,448,482	3,210,471

19. 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.

Financial Period ended June 2013 vs Financial Period ended June 2012

The Group achieved operating revenue of RM330.0million for the period ended 30 June 2013 (YTD June 2013), an increase of 5.1% or RM16.1 million compared to the corresponding financial period ended 30 June 2012 (YTD June 2012) of RM313.9 million. The Group's profit before tax was RM26.0 million for the YTD June 2013, RM3.9 million lower as compared to the profit before tax in the corresponding YTD June 2012 of RM29.9 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue of the investment holding was slightly higher for YTD June 2013 as compared to YTD June 2012. Profit before tax decreased by RM1.4 million mainly caused by decrease in realised gains on disposal of investments 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 RM15.3 million (2013: RM322.9 million, 2012: RM307.6 million) mainly due to higher gross premiums from both investment-linked and non-participating life business during the current quarter. Profit before tax was higher in the current quarter mainly due to higher realised gains on disposal of fixed income securities, despite the increase from management expenses in IT infrastructure enhancement and business expansion initiatives.

Other business – Operating revenue improved in the current quarter (2013: RM1.8 million) as compared to the corresponding quarter in the preceding year (2012: RM1.0 million) mainly contributed by higher management fee income earned on higher AUM and higher interest income. However, there was a loss before tax of RM4.4 million in the current quarter as compared to loss before tax of RM0.01 million in YTD June 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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

2nd Quarter 2013 vs 2nd Quarter 2012

The Group recorded operating revenue of RM176.6 million for the quarter ended 30 June 2013, an increase of 7.0% or RM11.6 million compared to the corresponding quarter ended 30 June 2012 of RM165.0 million. The Group's profit before tax was RM20.0 million for the current quarter, RM8.3 million higher as compared to the profit before tax in the corresponding quarter ended 30 June 2012 of RM11.7 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue of the investment holding was higher in current quarter (2013: RM3.2 million) as compared to the preceding year's corresponding quarter (2012: RM2.6 million) due to higher interest income from fixed income securities. A lower realised gain on disposal of financial assets has caused a slight decrease in profit before tax of RM0.05 million compared to corresponding quarter ended 30 June 2012.

Life insurance business – Operating revenue of the life insurance business increased by RM10.5 million (2013: RM172.3 million, 2012: RM161.8 million) mainly due to higher gross premiums during the current quarter. Profit before tax was higher in the current quarter mainly due higher realised gains on disposal of fixed income securities.

Other business – Operating revenue slightly increase in the current quarter (2013: RM1.0 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 RM2.4 million in the current quarter as compared to loss before tax of RM0.1 million in second quarter 2012, mainly attributable to the higher management expenses in IT infrastructure enhancement.

20. Material changes in the quarterly results compared to the results of preceding quarter

The Group attained higher profit before tax of RM20.0 million for the current quarter under review as compared to the profit before tax of RM6.0 million in preceding quarter ended 31 March 2013. The increase of RM14.0 million was mainly attributable to the higher realised gains from investments.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)**21. Net premiums**

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

	3 months ended		Cumulative 6 months ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
First year premium	19,792	16,796	33,657	30,224
Renewal year premium	107,878	102,089	207,733	196,759
Single premium	1,942	1,831	3,870	3,458
Total	129,612	120,716	245,260	230,441

22. Investment income

	3 months ended		Cumulative 6 months ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,475	3,828	7,463	7,659
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	2,910	2,375	3,917	3,142
- quoted outside Malaysia	29	-	36	-
Accretion of discounts, net of amortisation of premiums	49	71	212	186
<u>AFS financial assets</u>				
Interest/profit income	18,152	17,127	35,970	34,364
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	9,924	7,964	12,922	12,874
- unquoted	63	-	63	35
Accretion of discounts, net of amortisation of premiums	690	878	1,477	1,644
<u>Loans and receivables</u>				
Interest/profit income	5,529	6,339	11,132	12,731
Accretion of discounts, net of amortisation of premiums	603	573	1,199	1,141
<u>Investment properties</u>				
Rental income	1,927	1,735	3,552	3,398
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	630	456	772	769
	43,981	41,346	78,715	77,943

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)**23. Other operating expenses**

	3 months ended		Cumulative 6 months ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange gains	(925)	(3,380)	(925)	(248)
Interest expense on agent's bond withheld	7	8	14	16
Others	546	-	1,139	-
Tax on investment income of Life fund and Investment- linked funds				
- Current tax	2,273	3,854	4,903	6,849
- Deferred tax	754	(257)	638	1,051
	3,027	3,597	5,541	7,900
	<u>2,655</u>	<u>225</u>	<u>5,769</u>	<u>7,668</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.

24. Profit before taxation

	3 months ended		Cumulative 6 months ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	370	241	686	436
Depreciation of property and equipment	539	478	1,061	960
Investment income (Note 22)	(43,981)	(41,346)	(78,715)	(77,943)
Allowance/(recovery) of impairment loss on insurance receivables	6	(18)	6	(18)
Net foreign exchange gains	(925)	(3,380)	(925)	(248)
Net realised gains				
- realised gains on disposal of AFS investments	(33,538)	(15,620)	(41,709)	(28,397)
- realised gains on loans and receivables	-	(233)	-	(233)
	<u>(33,538)</u>	<u>(15,853)</u>	<u>(41,709)</u>	<u>(28,630)</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)**24. Profit before taxation (continued)**

	3 months ended		Cumulative 6 months ended	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
Profit before taxation is arrived at after charging/(crediting):				
Net fair value gains				
- fair value gains on FVTPL investments	(28,901)	(3,674)	(29,339)	(24,036)
- impairment loss on quoted equities	3	648	573	885
	(28,898)	(3,026)	(28,766)	(23,151)

Other than the above, there was no gain or loss on derivatives for the current quarter and period ended 30 June 2013.

25. Taxation

	3 months ended		Cumulative 6 months ended	
	30.06.2013 RM'000	30.06.2012 RM'000	30.06.2013 RM'000	30.06.2012 RM'000
<u>Income tax</u>				
Current tax	5,409	1,900	7,257	5,961
<u>Deferred tax</u>				
Origination and reversal of temporary differences	(1)	11	90	(15)
(Over)/under provision in prior financial year	(10)	46	(13)	(2,980)
	(11)	57	77	(2,995)
	5,398	1,957	7,334	2,966

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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)**25. Taxation (continued)**

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

	3 months ended		Cumulative 6 months ended	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	20,001	11,716	25,980	29,887
Taxation at Malaysian statutory tax rate of 25%	5,001	2,929	6,495	7,472
Section 110B tax credit set off	(646)	(819)	(1,095)	(1,417)
Income not subject to tax	(597)	(616)	(700)	(897)
Expenses not deductible for tax purposes	1,083	417	1,483	788
Unrecognised deferred tax assets	567	-	1,164	-
	5,408	1,911	7,347	5,946
(Over)/under provision in prior financial year				
- Deferred tax	(10)	46	(13)	(2,980)
	5,398	1,957	7,334	2,966

26. Earnings per share**(a) Basic earnings per share**

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

		3 months ended		Cumulative 6 months ended	
		30.06.2013	30.06.2012	30.06.2013	30.06.2012
Net profit attributable to owners of the parent	(RM'000)	14,593	9,759	18,636	26,921
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic earnings per share	(Sen)	7.21	4.82	9.21	13.30

(b) Diluted earnings per share

There is no dilution in earnings per share as there are no dilutive potential ordinary shares as at 30 June 2013.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)**27. Insurance contract liabilities**

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

	As at 30.06.2013	As at 31.12.2012
	RM'000	RM'000
Actuarial liabilities	2,159,765	2,138,525
Unallocated surplus	81,528	63,224
Fair value reserve	176,046	169,522
Investment-linked policyholders' account	479,938	432,416
	<u>2,897,277</u>	<u>2,803,687</u>

28. Cash and cash equivalents

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

	As at 30.06.2013	As at 31.12.2012
	RM'000	RM'000
Shareholders and others	112,025	20,553
Non Investment-linked business	31,265	23,714
Investment-linked business	2,202	2,512
	<u>145,492</u>	<u>46,779</u>

29. Capital commitment

	As at 30.06.2013	As at 31.12.2012
	RM'000	RM'000
<u>Exclusive bancassurance agreement</u>		
Contracted but not provided for	<u>40,000</u>	<u>-</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2013

Notes to the Interim Financial Statements (Continued)**30. 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 30.06.2013	As at 31.12.2012
	RM'000	RM'000
Total retained earnings of the Group:		
- Realised	482,221	481,113
- Unrealised	88,258	93,497
	<u>570,479</u>	<u>574,610</u>
Consolidation adjustments	24,124	24,124
Total retained earnings as per statement of financial position	<u>594,603</u>	<u>598,734</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
13 August 2013

Chin Mun Yee
Joint Secretary