

MANULIFE HOLDINGS BERHAD

Interim financial statements for the three months period ended 31 March 2014

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 2013, 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 2013.

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 2013, except for the adoption of the following:

<u>MFRSs/Interpretations</u>	<u>Effective Date</u>
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014
Amendments to MFRS 119: Defined Benefit Plan: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011-2013 Cycle	1 July 2014

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 2013.

4. Seasonal/cyclical factors

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

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5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 31 March 2014.

6. Change in estimates

There were no changes in the basis used for accounting estimates for the current financial period ended 31 March 2014.

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 2014.

8. Dividends

The directors recommend the payment of a first and final single-tier dividend of 10 sen per share and a special single-tier dividend of 2.5 sen per share, amounting to RM20,237,000 and RM5,059,250 respectively for the financial year ended 31 December 2013, 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 2014.

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 2014.

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

The effect of tapering Quantitative Easing measure has increased the bond yield in Malaysia which consequently improved the overall financial results of insurance business. This is expected to be a temporary transition in monetary policy whilst the Malaysia economy is forecasted to grow at a moderate rate. The Group remain cautious about the change in the market and economic environment as our business expansion plan is rolled out and rides on various initiatives undertaken by the Government. The utilisation and allocation of resources will be prudently managed along the growth journey.

The strategic bancassurance partnership with Alliance Bank Malaysia Berhad ("ABMB") will continue to create economic benefits to the Group via the distribution of our life insurance products to ABMB's customers, not to mention the diversification of sales channel will enhance the economies of scale and profitability. The Group will focus on offering a suite of bespoke products that are suitable for ABMB's customers.

The Group had recently completed the purchase of a mutual fund company managing 27 mutual funds and over 1,000 captive agents. The in-sourcing of fund management, expertise knowledge and synergy benefits will expand our wealth business according to the overall Group strategy. Significant resources are allocated to facilitate the integration process in order to ensure a seamless transition and a well-executed business plan.

A holistic customer-centric approach will be taken in our forward thinking solutions designed to help our customers' most significant financial decisions. We will offer a range of innovative products such as living benefits, integrated wellness programs and retirement solutions that aims to enhance the Group's competitiveness in both the insurance and unit trust industries.

Barring any unforeseen circumstances, the Directors expect the Group's performance to remain satisfactory in the current financial year ending 31 December 2014 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 2014.

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

There is no significant event during the financial period to date.

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

Comparative figures have been restated following the reclassification of business segments in the current financial year.

	Cumulative 3 months ended 31 March							
	Investment holding		Life insurance business		Asset management services		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	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	-	-	155,655	118,193	-	-	155,655	118,193
Premiums ceded to reinsurers	-	-	(2,250)	(2,545)	-	-	(2,250)	(2,545)
Net premiums	-	-	153,405	115,648	-	-	153,405	115,648
(b) Investment income	4,014	2,157	33,928	32,361	280	216	38,222	34,734
(c) Net realised gains	291	236	14,657	7,935	-	-	14,948	8,171
(d) Net fair value (losses)/gains	(14)	(96)	18,501	(36)	-	-	18,487	(132)
(e) Fee income	-	-	-	-	13,550	469	13,550	469
(f) Other operating income	-	(2)	429	239	15	-	444	237
Total external revenue	4,291	2,295	220,920	156,147	13,845	685	239,056	159,127
<u>Inter-segment revenue</u>								
(a) Rental income	148	186	115	93	-	-	263	279
(b) Fee income	242	-	501	-	1,701	1,687	2,444	1,687
(c) Dividend Income	33	-	873	-	-	-	906	-
(d) Net realised gains/(losses)	25	-	(71)	-	-	-	(46)	-
Total inter-segment revenue	448	186	1,418	93	1,701	1,687	3,567	1,966
Total revenue by segment	4,739	2,481	222,338	156,240	15,546	2,372	242,623	161,093
Profit/(loss) before taxation	872	292	8,846	7,992	(1,185)	(2,305)	8,533	5,979
Segment assets	786,242	430,255	4,011,940	3,815,150	80,384	44,061	4,878,566	4,289,466
Segment liabilities	17,571	10,956	3,634,029	3,289,957	42,231	10,238	3,693,831	3,311,151

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Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 3 months ended	
	31.03.2014	31.03.2013
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	242,623	161,093
Elimination of inter-segment revenue	(3,567)	(1,966)
Total revenue as per statement of profit or loss	239,056	159,127
	As at	As at
	31.03.2014	31.03.2013
		RM'000
Segment assets		
Total assets for reportable segments	4,878,566	4,289,466
Elimination of inter-segment assets	(426,817)	(247,612)
Total assets as per statement of financial position	4,451,749	4,041,854
Segment liabilities		
Total liabilities for reportable segments	3,693,831	3,311,151
Elimination of inter-segment liabilities	(5,894)	(11,652)
Total liabilities as per statement of financial position	3,687,937	3,299,499

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.

1st Quarter 2014 vs 1st Quarter 2013

The Group achieved operating revenue of RM239.1 million for the quarter ended 31 March 2014, an increase of 50.3% or RM80.0 million compared to the corresponding quarter ended 31 March 2013 of RM159.1 million. The Group's profit before tax was RM8.5 million for the current quarter, RM2.5 million higher as compared to the profit before tax in the corresponding quarter ended 31 March 2013 of RM6.0 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue and profit before tax of the investment holding was higher in the current quarter as compared to the preceding year's corresponding quarter due to higher interest income from fixed and call deposits.

Life insurance business – Operating revenue of the life insurance business increased by RM39.0 million (2014: RM189.6 million, 2013: RM150.6 million) mainly due to higher gross premiums from investment-linked business during the current quarter. Profit before tax was higher in the current quarter mainly attributable to due to better claims experience and lower management expenses allocated to Non-participating fund as compared to the corresponding quarter ended 31 March 2013.

Asset management services – The Group consolidated the results of a newly acquired unit trust subsidiary in the current quarter. As a result, operating revenue was higher in the current quarter (2014: RM13.8 million) as compared to the corresponding quarter in the preceding year (2013: RM0.7 million) and the asset management services business recorded lower loss before tax of approximately RM1.2 million compared to the first quarter in 2013.

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Notes to the Interim Financial Statements (Continued)**20. Material changes in the quarterly results compared to the results of preceding quarter**

The Group attained lower profit before tax of RM8.5 million for the current quarter under review as compared to the profit before tax of RM24.4 million in preceding quarter ended 31 December 2013. The decrease of RM15.9 million was mainly attributable to lower investment income and lower surplus transfer from Participating life fund.

21. Net premiums

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

	3 months ended		Cumulative 3 months ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
First year premium	15,721	13,865	15,721	13,865
Renewal year premium	103,717	99,855	103,717	99,855
Single premium	33,967	1,928	33,967	1,928
Total	153,405	115,648	153,405	115,648

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Notes to the Interim Financial Statements (Continued)**22. Investment income**

	3 months ended		Cumulative 3 months ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- designated upon initial recognition				
Interest/profit income	4,565	3,988	4,565	3,988
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	2,206	1,007	2,206	1,007
- quoted outside Malaysia	-	7	-	7
Accretion of discounts, net of amortisation of premiums	(76)	163	(76)	163
<u>AFS financial assets</u>				
Interest/profit income	18,068	17,818	18,068	17,818
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	4,305	2,998	4,305	2,998
Accretion of discounts, net of amortisation of premiums	631	787	631	787
<u>Loans and receivables</u>				
Interest/profit income	5,497	5,603	5,497	5,603
Accretion of discounts, net of amortisation of premiums	626	596	626	596
<u>Investment properties</u>				
Rental income	2,255	1,625	2,255	1,625
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	145	142	145	142
	38,222	34,734	38,222	34,734

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

	3 months ended		Cumulative 3 months ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange losses/(gains)	93	(1,252)	93	(1,252)
Interest expense on agent's bond withheld	6	7	6	7
Others	19	589	19	589
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	5,024	2,630	5,024	2,630
- Deferred tax	(419)	(116)	(419)	(116)
	4,605	2,514	4,605	2,514
	<u>4,723</u>	<u>1,858</u>	<u>4,723</u>	<u>1,858</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% (2013: 8%) of the assessable investment income, net of allowable deductions for the financial year.

24. Profit before taxation

	3 months ended		Cumulative 3 months ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	973	316	973	316
Depreciation of property and equipment	665	522	665	522
Investment income (Note 22)	(38,222)	(34,374)	(38,222)	(34,374)
Net foreign exchange losses/(gains)	93	(1,252)	93	(1,252)
Net realised gains				
- realised gains on disposal of AFS investments	(14,948)	(8,171)	(14,948)	(8,171)

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

	3 months ended		Cumulative 3 months ended	
	31.03.2014 RM'000	31.03.2013 RM'000	31.03.2014 RM'000	31.03.2013 RM'000
Profit before taxation is arrived at after charging/(crediting):				
Net fair value (gains)/losses				
- fair value gains on FVTPL investments	(18,506)	(438)	(18,506)	(438)
- impairment loss on quoted equities	19	570	19	570
	(18,487)	132	(18,487)	132

Other than the above, there was no gain or loss on derivatives and allowance of impairment loss on insurance receivables for the current quarter and period ended 31 March 2014.

25. Taxation

	3 months ended		Cumulative 3 months ended	
	31.03.2014 RM'000	31.03.2013 RM'000	31.03.2014 RM'000	31.03.2013 RM'000
<u>Income tax</u>				
Current financial year	2,681	1,848	2,681	1,848
	2,681	1,848	2,681	1,848
<u>Deferred tax</u>				
Origination and reversal of temporary differences	(31)	91	(31)	91
Over provision in prior financial year	-	(3)	-	(3)
	(31)	88	(31)	88
	2,650	1,936	2,650	1,936

The income tax for the Group is calculated based on the tax rate of 25% (2013: 25%) of the estimated assessable profit for the financial period.

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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 3 months ended	
	31.03.2014 RM'000	31.03.2013 RM'000	31.03.2014 RM'000	31.03.2013 RM'000
Profit before taxation	8,533	5,979	8,533	5,979
Taxation at Malaysian statutory tax rate of 25%	2,133	1,494	2,133	1,494
Section 110B tax credit set off	(451)	(449)	(451)	(449)
Income not subject to tax	(467)	(103)	(467)	(103)
Expenses not deductible for tax purposes	883	400	883	400
Unrecognised deferred tax assets	552	597	552	597
	2,650	1,939	2,650	1,939
Over provision in prior financial year				
- Deferred tax	-	(3)	-	(3)
	2,650	1,936	2,650	1,936

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 3 months ended	
	31.03.2014	31.03.2013	31.03.2014	31.03.2013
Net profit attributable to owners of the Parent (RM'000)	5,828	4,043	5,828	4,043
Weighted average number of ordinary shares in issue ('000)	202,370	202,370	202,370	202,370
Basic earnings per share (Sen)	2.88	2.00	2.88	2.00

(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 2014.

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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:

	Gross		Net	
	As at 31.03.2014 RM'000	As at 31.12.2013 RM'000	As at 31.03.2014 RM'000	As at 31.12.2013 RM'000
Actuarial liabilities	2,110,527	2,087,864	2,110,310	2,087,773
Unallocated surplus	203,211	202,587	203,211	202,587
Fair value reserve	98,816	115,131	98,816	115,131
Asset revaluation reserve	641	641	641	641
Investment-linked policyholders' account	711,174	666,605	711,174	666,605
	3,124,369	3,072,828	3,124,152	3,072,737

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

	Gross		Net	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	3,072,828	2,803,687	3,072,737	2,803,687
Inforce reserve movement	10,428	47,297	9,231	47,297
New business reserve	3,018	5,223	2,892	5,132
Discount rate and other changes	9,217	(103,181)	10,414	(103,181)
Unallocated surplus	624	139,363	624	139,363
Fair value reserve, net of tax	(16,315)	(54,391)	(16,315)	(54,391)
Asset revaluation reserve	-	641	-	641
Investment-linked policyholders' account	44,569	234,189	44,569	234,189
At 31 March 2014/ 31 December 2013	3,124,369	3,072,828	3,124,152	3,072,737

28. Cash and cash equivalents

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

	As at 31.03.2014 RM'000	As at 31.12.2013 RM'000
Shareholders and others	34,292	31,396
Non Investment-linked business	25,765	21,877
Investment-linked business	3,162	4,384
	63,219	57,657

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Notes to the Interim Financial Statements (Continued)**29. Capital commitment**

	As at 31.03.2014	As at 31.12.2013
	RM'000	RM'000
<u>Exclusive bancassurance agreement</u>		
Contracted but not provided for	40,000	40,000

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 31.03.2014	As at 31.12.2013
	RM'000	RM'000
Total retained earnings of the Group:		
- Realised	535,229	528,864
- Unrealised	80,684	81,221
	615,913	610,085
Consolidation adjustments	24,124	24,124
Total retained earnings as per statement of financial position	640,037	634,209

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
21 May 2014

Chin Mun Yee
Joint Secretary