

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2015

Notes to the Interim Financial Statements (Continued)

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 2014, 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 2014.

2. Significant accounting policies

The accounting policies 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 2014, except for the adoption of the following amendments/improvements to MFRS:

<u>Description</u>	<u>Effective Date</u>
Amendments to MFRS 119: Defined Benefit Plans: 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 above amendments/improvements to standards 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 that are issued by MASB but not yet effective in the current year are 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 2014.

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 2015.

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6. Change in estimates

There were no changes in the basis used for accounting estimates for the current financial period ended 30 June 2015.

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 2015.

8. Dividends

A first and final dividend of 10.0 sen per share, amounting to RM20,237,000 for the financial year ended 31 December 2014, was approved at the Annual General Meeting held on 28 May 2015 and the dividend was paid on 18 June 2015.

No dividend has been declared in respect of the current financial period ended 30 June 2015.

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 2015.

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 market volatility amid uneven global growth and weak currency is likely to negatively affect the economy in Malaysia which consequently put downward pressures on our insurance and wealth management businesses. While the Malaysian economy growth outlook stays at the current level of 5%, the implementation of Goods and Services Tax not only has softened consumer sentiment but also has increased the cost base of the life insurance operation. In light of the current challenging environment, the Group will continue to take a considered approach in the utilisation and allocation of resources along the growth journey.

The Group will deepen the collaboration with our strategic bancassurance partner, Alliance Bank Malaysia Berhad ("ABMB"), in order to expand more avenues across various business lines, improve the economies of scale and profitability. The Group will be able to meet different needs of ABMB's customers by offering a broader suite of bespoke products.

The integrated platform of distribution, fund management, product, system application and operations for our unit trusts and pensions will continue to deliver the synergistic benefits and support our business expansion. With our strong foreign fund capability, the Group has launched new funds to meet ongoing demand for investment products which will continue to be one of the key revenue drivers. For the delivery of business plan, resources will be dedicated to raise our branch presence and enhance the capability of computer systems.

A holistic customer-centric approach will be taken in our forward thinking solutions designed to help our customers' most significant financial decisions. The Group has revamped the company website to enhance customer experience. More integrated wellness programs and retirement solutions will be developed for Malaysians which can create a long-lasting relationship.

Given the uncertainty and challenges, the Directors expect that there will be potential headwinds in respect of Group's performance in the current financial year ending 31 December 2015.

13. Profit forecast

The Group did not issue any profit forecast during the financial period ended 30 June 2015.

14. Group borrowings

The Group does not have any borrowings as at 30 June 2015.

15. Material litigation

There is no material litigation as at the date of this report and 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

	Cumulative 6 months ended 30 June							
	Investment holding		Life insurance business		Asset management services		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	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	-	-	329,982	375,626	-	-	329,982	375,626
Premiums ceded to reinsurers	-	-	(6,410)	(4,897)	-	-	(6,410)	(4,897)
Net premiums	-	-	323,572	370,729	-	-	323,572	370,729
(b) Investment income	7,642	8,317	72,997	72,270	766	555	81,405	81,142
(c) Net realised (losses)/gains	(242)	182	15,833	31,882	-	-	15,591	32,064
(d) Net fair value (losses)/gains	(186)	(16)	(34,612)	30,141	3	-	(34,795)	30,125
(e) Fee income	-	-	-	-	28,816	27,179	28,816	27,179
(f) Other operating income	-	-	835	841	112	74	947	915
Total external revenue	7,214	8,483	378,625	505,863	29,697	27,808	415,536	542,154
<u>Inter-segment revenue</u>								
(a) Rental income	537	276	226	288	-	-	763	564
(b) Fee income	236	557	1,721	1,294	3,961	5,063	5,918	6,914
(c) Dividend Income	-	4,000	1,822	1,463	-	-	1,822	5,463
(d) Net realised gains	-	-	377	194	-	-	377	194
Total inter-segment revenue	773	4,833	4,146	3,239	3,961	5,063	8,880	13,135
Total revenue by segment	7,987	13,316	382,771	509,102	33,658	32,871	424,416	555,289
Profit/(loss) before taxation	907	2,142	21,342	19,347	(3,792)	(2,435)	18,457	19,054
Segment assets	736,011	760,799	4,366,131	4,164,569	195,863	92,354	5,298,005	5,017,722
Segment liabilities	6,986	49,660	3,935,749	3,775,476	131,896	55,605	4,074,631	3,880,741

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Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 6 months ended	
	30.06.2015	30.06.2014
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	424,416	555,289
Elimination of inter-segment revenue	(8,880)	(13,135)
Total revenue as per statement of profit or loss	415,536	542,154
	As at	As at
	30.06.2015	30.06.2014
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	5,298,005	5,017,722
Elimination of inter-segment assets	(489,127)	(392,034)
Total assets as per statement of financial position	4,808,878	4,625,688
Segment liabilities		
Total liabilities for reportable segments	4,074,631	3,880,741
Elimination of inter-segment liabilities	(26,337)	(6,207)
Total liabilities as per statement of financial position	4,048,294	3,874,534

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 30 June 2015 vs Financial Period ended 30 June 2014

The Group achieved operating revenue of RM440.2 million for the financial period ended 30 June 2015 (YTD June 2015), a decrease of 9.0% or RM43.7 million compared to the corresponding financial period ended 30 June 2014 (YTD June 2014) of RM483.9 million. The Group's profit before tax was also lower by RM0.6 million as compared to the profit before tax in the corresponding YTD June 2014 (2015: RM18.5 million, 2014: RM19.1 million).

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue and profit before tax decreased by RM0.7 million and RM1.2 million as compared to YTD June 2014 mainly attributable to the lower interest income on fixed income securities.

Life insurance business – Operating revenue of the life insurance business decreased by RM45.0 million (2015: RM402.9 million, 2014: RM447.9 million) mainly due to lower contribution from investment-linked business during the current financial period ended June 2015. Profit before tax was RM2.0 million higher compared to YTD June 2014 due to a higher new business gains and less unfavorable impact on actuarial liabilities resulting from smaller decline in MGS yield in the current financial period.

Asset management services – Asset management business achieved higher operating revenue of RM29.6 million (2014: RM27.7 million) from higher management fee income earned on the enlarged Asset Under Management. Loss before tax was RM1.3 million higher compared to YTD June 2014 due to higher IT outsourcing and shared service costs.

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Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

2nd Quarter 2015 vs 2nd Quarter 2014

The Group's operating revenue for the quarter ended 30 June 2015 decreased by 8.0% (or RM22.2 million) compared to the corresponding quarter ended 30 June 2014 (2015: RM254.3 million, 2014: RM276.5 million). The Group's profit before tax was RM12.0 million for the current quarter, RM1.5 million higher as compared to the profit before tax in the corresponding quarter ended 30 June 2014 of RM10.5 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue (2015: RM4.2 million, 2014: RM4.3 million) and profit before tax (2015: RM1.2 million, 2014: RM1.3 million) in the current quarter remain consistent as compared to the preceding year's corresponding quarter.

Life insurance business – Operating revenue of the life insurance business decreased by RM23.8 million (2015: RM234.5 million, 2014: RM258.3 million) mainly due to lower contribution from investment-linked business as compared to Q2 2014. Profit before tax was slightly higher in the current quarter (2015: RM14.1 million, 2014: RM10.5 million) mainly due to favorable impact on actuarial liability because of higher Malaysian Government Securities (MGS) yield, coupled with improved claims experience compared to last year.

Asset management services – Asset management business achieved higher operating revenue of RM15.5 million (2014: RM13.9 million) from the enlarged Asset Under Management. Higher loss before tax of RM3.3 million was reported in Q2 2015 (2014: RM1.2 million) mainly due to a catch-up of accrued agency benefits to date, as well as higher IT outsourcing and shared service costs.

20. Commentary on the quarterly results compared to the results of preceding quarter

The Group reported higher profit before tax of RM12.0 million for the current quarter under review as compared to the profit before tax of RM6.5 million in the preceding quarter ended 31 March 2015. The increase of RM5.5 million was mainly attributable to the favorable impact on actuarial liabilities as a result of higher MGS yield.

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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	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
First year premium	23,273	20,372	41,087	36,093
Renewal year premium	119,222	118,297	225,267	222,014
Single premium	49,999	78,655	57,218	112,622
Total	192,494	217,324	323,572	370,729

22. Investment income

	3 months ended		Cumulative 6 months ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,250	3,221	6,555	6,723
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	4,771	3,648	7,085	5,839
- quoted outside Malaysia	81	37	81	37
Accretion of discounts, net of amortisation of premiums	(34)	(37)	(13)	(113)
<u>AFS financial assets</u>				
Interest/profit income	19,460	19,133	38,498	37,201
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	5,900	7,263	10,434	11,582
- unquoted in Malaysia	105	70	105	70
Accretion of discounts, net of amortisation of premiums	173	570	486	1,201
<u>Loans and receivables</u>				
Interest/profit income	6,419	6,491	12,811	13,052
Accretion of discounts, net of amortisation of premiums	665	633	1,322	1,259
<u>Investment properties</u>				
Rental income	2,238	1,723	3,859	3,978
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	69	168	182	313
	43,097	42,920	81,405	81,142

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Notes to the Interim Financial Statements (Continued)

23. Other (income)/expenses

	3 months ended		Cumulative 6 months ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange (gains)/losses	(13,167)	1,826	(20,804)	1,919
Interest expense on agent's bond withheld	6	8	11	14
Others	33	(1)	107	18
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	1,913	4,423	3,435	9,447
- Deferred tax	(1,432)	(70)	49	(489)
	481	4,353	3,484	8,958
	<u>(12,647)</u>	<u>6,186</u>	<u>(17,202)</u>	<u>10,909</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% (2014: 8%) of the assessable investment income, net of allowable deductions for the financial year.

24. Profit before taxation

	3 months ended		Cumulative 6 months ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	2,043	1,398	3,444	2,371
Depreciation of property and equipment	798	662	1,592	1,327
Investment income (Note 22)	(43,097)	(42,920)	(81,405)	(81,142)
Reversal of allowance of impairment loss on insurance receivables	(11)	-	(8)	-
Net foreign exchange (gains)/losses	(13,167)	1,826	(20,804)	1,919
Net realised gains				
- realised losses on disposal of property and equipment	-	-	14	-
- realised gains on disposal of AFS investments	(8,903)	(17,116)	(15,592)	(32,064)
- realised gains on loans and receivables	(13)	-	(13)	-
	<u>(8,916)</u>	<u>(17,116)</u>	<u>(15,591)</u>	<u>(32,064)</u>

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

	3 months ended		Cumulative 6 months ended	
	30.06.2015 RM'000	30.06.2014 RM'000	30.06.2015 RM'000	30.06.2014 RM'000
Profit before taxation is arrived at after charging/(crediting) (continued):				
Net fair value losses/(gains)				
- fair value losses/(gains) on FVTPL investments/derivatives	26,059	(11,638)	21,010	(30,144)
- impairment loss on quoted equities	13,691	-	13,785	19
	39,750	(11,638)	34,795	(30,125)

25. Taxation

	3 months ended		Cumulative 6 months ended	
	30.06.2015 RM'000	30.06.2014 RM'000	30.06.2015 RM'000	30.06.2014 RM'000
<u>Income tax</u>				
Current financial period	3,952	2,724	5,849	5,405
(Over)/under provision in prior financial year	(11)	-	404	-
	3,941	2,724	6,253	5,405
<u>Deferred tax</u>				
Reversal of temporary differences	(9)	(12)	(20)	(43)
Over provision in prior financial year	-	-	(180)	-
	(9)	(12)	(200)	(43)
	3,932	2,712	6,053	5,362

The income tax for the Group is calculated based on the tax rate of 25% (2014: 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 6 months ended	
	30.06.2015 RM'000	30.06.2014 RM'000	30.06.2015 RM'000	30.06.2014 RM'000
Profit before taxation	11,954	10,521	18,457	19,054
Taxation at Malaysian statutory tax rate of 25%	2,988	2,631	4,614	4,764
Section 110B tax credit set off	(397)	(616)	(999)	(1,067)
Income not subject to tax	(812)	(136)	(961)	(603)
Expenses not deductible for tax purposes	1,485	757	2,386	1,640
Unrecognised deferred tax assets	679	76	789	628
	3,943	2,712	5,829	5,362
(Over)/under provision in prior financial year				
- Current tax	(11)	-	404	-
- Deferred tax	-	-	(180)	-
	3,932	2,712	6,053	5,362

26. Basic and diluted earnings per share

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

		3 months ended		Cumulative 6 months ended	
		30.06.2015	30.06.2014	30.06.2015	30.06.2014
Net profit attributable to owners of the Company	(RM'000)	8,010	7,803	12,386	13,631
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	3.96	3.86	6.12	6.74

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

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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 30.06.2015 RM'000	As at 31.12.2014 RM'000	As at 30.06.2015 RM'000	As at 31.12.2014 RM'000
Actuarial liabilities	2,170,411	2,133,716	2,168,453	2,132,685
Unallocated surplus	181,496	223,854	181,496	223,854
Fair value reserve	55,723	53,060	55,723	53,060
Asset revaluation reserve	641	641	641	641
Investment-linked policyholders' account	895,150	860,803	895,150	860,803
	<u>3,303,421</u>	<u>3,272,074</u>	<u>3,301,463</u>	<u>3,271,043</u>

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

	Gross		Net	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January	3,272,074	3,072,828	3,271,043	3,072,737
Inforce reserve movement	(12,510)	16,768	(12,510)	16,768
New business reserve	10,265	17,179	9,338	16,239
Discount rate and other changes	38,940	11,905	38,940	11,905
Unallocated surplus	(42,358)	21,267	(42,358)	21,267
Fair value reserve, net of tax	2,663	(62,071)	2,663	(62,071)
Investment-linked policyholders' account	34,347	194,198	34,347	194,198
At 30 June 2015/ 31 December 2014	<u>3,303,421</u>	<u>3,272,074</u>	<u>3,301,463</u>	<u>3,271,043</u>

28. Cash and cash equivalents

Cash and cash equivalents as at the date of statement of financial position are held in the following business segments:

	As at 30.06.2015 RM'000	As at 31.12.2014 RM'000
Investment holding	17,911	7,967
Life insurance business:-		
Shareholders' fund	11,803	4,087
Non Investment-linked business	48,220	49,891
Investment-linked business	3,840	2,425
Asset management services	74,925	41,603
	<u>156,699</u>	<u>105,973</u>

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Notes to the Interim Financial Statements (Continued)**29. Capital and other commitments**

	As at 30.06.2015 RM'000	As at 31.12.2014 RM'000
Capital expenditure commitments		
Property and equipment		
-Authorised but not provided for	<u>1,930</u>	<u>2,699</u>
Other commitments		
Exclusive bancassurance agreement		
-Authorised but not provided for	<u>24,000</u>	<u>25,500</u>

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

30. Financial instruments**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").

Group	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
30 June 2015					
Financial assets					
AFS financial assets	2,611,123	-	-	-	2,611,123
Financial assets at FVTPL	-	1,041,481	-	-	1,041,481
Loans and receivables	-	-	706,580	-	706,580
Insurance receivables	-	-	24,083	-	24,083
Cash and cash equivalents	-	-	156,699	-	156,699
	<u>2,611,123</u>	<u>1,041,481</u>	<u>887,362</u>	<u>-</u>	<u>4,539,966</u>
Financial liabilities					
Financial liabilities at FVTPL	-	1,621	-	-	1,621
Insurance payables	-	-	-	407,059	407,059
Other payables	-	-	-	243,333	243,333
	<u>-</u>	<u>1,621</u>	<u>-</u>	<u>650,392</u>	<u>652,013</u>

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Notes to the Interim Financial Statements (Continued)**30. Financial instruments (continued)****Categories of financial instruments (continued)**

Group	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2014					
Financial assets					
AFS financial assets	2,617,754	-	-	-	2,617,754
Financial assets at FVTPL	-	960,873	-	-	960,873
Loans and receivables	-	-	663,674	-	663,674
Insurance receivables	-	-	23,608	-	23,608
Cash and cash equivalents	-	-	105,973	-	105,973
	2,617,754	960,873	793,255	-	4,371,882
Financial liabilities					
Financial liabilities at FVTPL	-	700	-	-	700
Insurance payables	-	-	-	396,502	396,502
Other payables	-	-	-	120,947	120,947
	-	700	-	517,449	518,149

31. Determination of fair values and fair value hierarchy**a) Freehold properties and investment properties**

The fair value of the Group's freehold properties and investment properties is determined based on the income method conducted by an independent qualified valuer.

Under the income method, the market value of the properties 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.

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Notes to the Interim Financial Statements (Continued)

31. Determination of fair values and fair value hierarchy (continued)

a) Freehold properties and investment properties (continued)

The fair value of freehold properties and investment properties are classified within Level 2 of the fair value hierarchy. The fair value of the properties is as follows:

	Freehold properties		Investment properties	
	As at 30.06.2015 RM'000	As at 31.12.2014 RM'000	As at 30.06.2015 RM'000	As at 31.12.2014 RM'000
Carrying amount*	20,432	20,087	86,564	84,292
Fair value as stated in valuation report**	20,208	20,208	84,292	84,292
Last recognised revalued amount	18,677	18,677	84,292	84,292

* Includes additional refurbishment costs capitalised during the period.

** Based on the valuation conducted by an independent qualified valuer as at 31 December 2014.

b) Financial assets and financial liabilities

(i) Determination of fair values

The fair values of the Group's and 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 bank balances, insurance payables and other payables, are reasonable approximations of their fair values due to the relatively short term maturity of these balances;
- (ii) The fair values of quoted equities are based on quoted market prices as at the reporting date;
- (iii) The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate debt securities are based on indicative market prices;
- (iv) The fair values of negotiable 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 investments in mutual funds, unit trust funds and real estate investment trusts are valued based on the net asset values of the underlying funds as at the reporting date.
- (vi) The fair values of foreign exchange forward contracts are based on valuations provided by the financial institutions making reference to quoted market prices.

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Interim financial statements for the six months period ended 30 June 2015

Notes to the Interim Financial Statements (Continued)

31. Determination of fair values and fair value hierarchy (continued)

b) Financial assets and financial liabilities (continued)

(ii) Fair value hierarchy

The Group and the Company categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Group's and 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 Group and 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 Group and the Company uses observable market data, when available, and minimises the use of unobservable inputs to the extent possible when determining fair value.

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Interim financial statements for the six months period ended 30 June 2015

Notes to the Interim Financial Statements (Continued)**31. Determination of fair values and fair value hierarchy (continued)****b) Financial assets and financial liabilities (continued)****(ii) Fair value hierarchy (continued)**

The following table presents the Group's financial assets and financial liabilities that are carried at fair value as at reporting date.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
30 June 2015				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	698,508	698,508	-	-
Unit trust funds	100,886	100,886	-	-
Malaysian Government Securities	640,862	-	640,862	-
Government Investment Issues	142,772	-	142,772	-
Corporate debt securities				
- Unquoted	1,008,316	-	1,008,316	-
Accrued interest	17,263	-	17,263	-
	<u>2,608,607</u>	<u>799,394</u>	<u>1,809,213</u>	<u>-</u>
Financial assets at FVTPL				
Equity securities				
- Quoted in Malaysia	347,761	347,761	-	-
- Quoted outside Malaysia	4,714	4,714	-	-
Unit trust funds	3,825	3,825	-	-
Malaysian Government Securities	54,249	-	54,249	-
Government Investment Issues	9,340	-	9,340	-
Corporate debt securities				
- Unquoted	213,311	-	213,311	-
Mutual funds	405,828	405,828	-	-
Derivatives				
- Forward foreign exchange contract	76	-	76	-
Accrued interest	2,377	-	2,377	-
	<u>1,041,481</u>	<u>762,128</u>	<u>279,353</u>	<u>-</u>
Financial liabilities at FVTPL				
Derivatives				
- Forward foreign exchange contract	1,621	-	1,621	-

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Interim financial statements for the six months period ended 30 June 2015

Notes to the Interim Financial Statements (Continued)**31. Determination of fair values and fair value hierarchy (continued)****b) Financial assets and financial liabilities (continued)****(ii) Fair value hierarchy (continued)**

The following table presents the Group's financial assets and financial liabilities that are carried at fair value as at reporting date (continued)

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2014				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	705,806	705,806	-	-
Unit trust funds	98,491	98,491	-	-
Malaysian Government Securities	670,780	-	670,780	-
Government Investment Issues	175,622	-	175,622	-
Corporate debt securities				
- Unquoted	947,244	-	947,244	-
Accrued interest	17,295	-	17,295	-
	<u>2,615,238</u>	<u>804,297</u>	<u>1,810,941</u>	<u>-</u>
Financial assets at FVTPL				
Equity securities				
- Quoted in Malaysia	287,743	287,743	-	-
- Quoted outside Malaysia	4,153	4,153	-	-
Unit trust funds	1,760	1,760	-	-
Malaysian Government Securities	67,133	-	67,133	-
Government Investment Issues	18,541	-	18,541	-
Corporate debt securities				
- Unquoted	204,565	-	204,565	-
Mutual funds	374,566	374,566	-	-
Accrued interest	2,412	-	2,412	-
	<u>960,873</u>	<u>668,222</u>	<u>292,651</u>	<u>-</u>
Financial liabilities at FVTPL				
Derivatives				
- Forward foreign exchange contract	700	-	700	-
	<u>700</u>	<u>-</u>	<u>700</u>	<u>-</u>

Unquoted equity securities of RM 2,516,566 (31 December 2014: RM2,516,566) are not disclosed in the fair value hierarchy above as they are measured at cost as fair value is not readily available.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2015

Notes to the Interim Financial Statements (Continued)

32. 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 30.06.2015 RM'000	As at 31.12.2014 RM'000
Total retained earnings of the Group:		
- Realised	537,151	548,499
- Unrealised	83,638	80,488
	<u>620,789</u>	<u>628,987</u>
Consolidation adjustments	15,917	15,570
Total retained earnings as per statement of financial position	<u>636,706</u>	<u>644,557</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 Unaudited Condensed Consolidated Statement of Changes in Equity.

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
20 August 2015

Chin Mun Yee
Joint Secretary