

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 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 September 2015.

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6. Change in estimates

The Group's insurance subsidiary, Manulife Insurance Berhad revised certain assumptions used for the actuarial liabilities valuation during the current quarter ended 30 September 2015. The change resulted in higher actuarial liabilities of RM19.6 million for the current quarter ended, with a corresponding decrease in unallocated surplus for the participating business of RM19.7 million and increase in net profit before tax of RM0.1 million.

Other than as disclosed above, there were no changes in the basis used for accounting estimates for the current financial period ended 30 September 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 September 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 September 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 September 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 global market volatility as well as weak oil price and local currency are likely to negatively affect the economy in Malaysia which consequently put downward pressures on our insurance and wealth management businesses. The local currency has significantly weakened against USD and the resultant yield increase in the Malaysian Government Securities led to a release in insurance contract liabilities and earnings. In addition, 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 collaboration with our strategic bancassurance partner, Alliance Bank Malaysia Berhad ("ABMB"), continues with a strong focus on regular premium businesses. The Group further expands more avenues across various business lines and offers broad range of bespoke products which aim to meet different needs of ABMB's customers and subsequently improve our economies of scale and profitability.

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 are 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 September 2015.

14. Group borrowings

The Group does not have any borrowings as at 30 September 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 9 months ended 30 September							
	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	-	-	553,864	578,934	-	-	553,864	578,934
Premiums ceded to reinsurers	-	-	(10,835)	(7,815)	-	-	(10,835)	(7,815)
Net premiums	-	-	543,029	571,119	-	-	543,029	571,119
(b) Investment income	11,111	12,034	111,283	109,821	1,186	963	123,580	122,818
(c) Net realised (losses)/gains	(540)	(246)	19,205	46,368	-	-	18,665	46,122
(d) Net fair value (losses)/gains	(981)	(10)	(102,433)	32,650	3	-	(103,411)	32,640
(e) Fee income	-	-	-	-	43,522	42,416	43,522	42,416
(f) Other operating income	-	-	1,259	1,261	136	144	1,395	1,405
Total external revenue	9,590	11,778	572,343	761,219	44,847	43,523	626,780	816,520
<u>Inter-segment revenue</u>								
(a) Rental income	810	532	350	304	-	-	1,160	836
(b) Fee income	355	706	2,506	1,940	5,708	5,785	8,569	8,431
(c) Dividend Income	-	4,000	2,808	2,425	-	-	2,808	6,425
(d) Net realised gains	-	-	609	217	-	-	609	217
(e) Fair value losses	-	-	-	(7)	-	-	-	(7)
Total inter-segment revenue	1,165	5,238	6,273	4,879	5,708	5,785	13,146	15,902
Total revenue by segment	10,755	17,016	578,616	766,098	50,555	49,308	639,926	832,422
Profit/(loss) before taxation	(334)	1,795	40,768	29,435	(3,547)	(2,935)	36,887	28,295
Segment assets	693,026	720,409	4,322,624	4,226,677	134,435	101,284	5,150,085	5,048,370
Segment liabilities	5,408	19,454	3,880,102	3,827,120	70,256	31,871	3,955,766	3,878,445

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Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 9 months ended	
	30.09.2015	30.09.2014
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	639,926	832,422
Elimination of inter-segment revenue	(13,146)	(15,902)
Total revenue as per statement of profit or loss	626,780	816,520
	As at	As at
	30.09.2015	30.09.2014
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	5,150,085	5,048,370
Elimination of inter-segment assets	(434,662)	(412,637)
Total assets as per statement of financial position	4,715,423	4,635,733
Segment liabilities		
Total liabilities for reportable segments	3,955,766	3,878,445
Elimination of inter-segment liabilities	(11,610)	(2,274)
Total liabilities as per statement of financial position	3,944,156	3,876,171

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 September 2015 vs Financial Period ended 30 September 2014

The Group achieved operating revenue of RM721.0 million for the financial period ended 30 September 2015 (YTD September 2015), a decrease of 3.0% or RM23.2 million compared to the corresponding financial period ended 30 September 2014 (YTD September 2014) of RM744.2 million. However, the Group's profit before tax was RM8.6 million higher as compared to the profit before tax in the corresponding YTD September 2014 (2015: RM36.9 million, 2014: RM28.3 million).

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue and profit before tax decreased by RM0.9 million and RM2.1 million as compared to YTD September 2014 mainly attributable to the lower investment income.

Life insurance business – Operating revenue of the life insurance business decreased by RM23.6 million (2015: RM665.1 million, 2014: RM688.7 million) mainly due to lower contribution from investment-linked business during the current financial period ended September 2015. Profit before tax was RM11.3 million higher compared to YTD September 2014 due to higher new business gains and favorable impact on actuarial liability as a result of higher Malaysian Government Securities (“MGS”) yield in the current financial period.

Asset management services – Operating revenue of Asset Management business increased marginally in the current financial period (2015: RM44.7 million, 2014: RM43.4 million). Loss before tax was RM0.6 million higher compared to YTD September 2014 due to higher IT outsourcing and fund management expenses.

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Interim financial statements for the nine months period ended 30 September 2015

Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

3rd Quarter 2015 vs 3rd Quarter 2014

The Group's operating revenue for the quarter ended 30 September 2015 increased by 8.0% (or RM20.6 million) compared to the corresponding quarter ended 30 September 2014 (2015: RM280.8 million, 2014: RM260.2 million). The Group's profit before tax was RM18.4 million for the current quarter, RM9.2 million higher as compared to the profit before tax in the corresponding quarter ended 30 September 2014 of RM9.2 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue (2015: RM3.5 million, 2014: RM3.7 million) in the current quarter remain consistent as compared to the preceding year's corresponding quarter. However, loss before tax was RM0.9 million higher than Q3 2014 (2015: RM1.2 million, 2014: RM0.3 million) mainly due to the worsening of the equity market resulted in higher fair value loss.

Life insurance business – Operating revenue of the life insurance business increased by RM21.4 million (2015: RM262.2 million, 2014: RM240.8 million) mainly due to higher contribution from investment-linked business as compared to Q3 2014. Profit before tax was RM9.4 million higher in the current quarter (2015: RM19.5 million, 2014: RM10.1 million) mainly due to favorable impact on actuarial liability as a result of higher MGS yield, coupled with improved claims experience compared to same quarter last year.

Asset management services – Operating revenue slightly drop by RM0.6 million (2015: RM15.1 million, 2014: RM15.7 million) and loss before tax has improved RM0.2 million in the current quarter.

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

The Group reported higher profit before tax of RM18.4 million for the current quarter under review as compared to the profit before tax of RM12.0 million in the preceding quarter ended 30 June 2015. The increase of RM6.4 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 9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
First year premium	23,888	23,226	64,975	59,319
Renewal year premium	125,033	123,380	350,300	345,394
Single premium	70,536	53,784	127,754	166,406
Total	219,457	200,390	543,029	571,119

22. Investment income

	3 months ended		Cumulative 9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
<u>- designated upon initial recognition</u>				
Interest/profit income	3,261	3,281	9,816	10,004
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	3,796	2,835	10,881	8,674
- quoted outside Malaysia	-	14	81	51
Accretion of discounts, net of amortisation of premiums	(46)	(21)	(59)	(134)
<u>AFS financial assets</u>				
Interest/profit income	20,329	19,234	58,827	56,435
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	6,153	6,762	16,587	18,344
- unquoted in Malaysia	-	292	105	362
Accretion of discounts, net of amortisation of premiums	(58)	645	428	1,846
<u>Loans and receivables</u>				
Interest/profit income	6,089	6,291	18,900	19,343
Accretion of discounts, net of amortisation of premiums	674	641	1,996	1,900
<u>Investment properties</u>				
Rental income	1,787	1,607	5,646	5,585
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	190	95	372	408
	42,175	41,676	123,580	122,818

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Notes to the Interim Financial Statements (Continued)

23. Other (income)/expenses

	3 months ended		Cumulative 9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange gains	(42,262)	(2,632)	(63,066)	(713)
Interest expense on agent's bond withheld	72	10	83	22
Others	123	26	230	45
Tax on investment income of Life fund and Investment- linked funds				
- Current tax	499	2,959	3,934	12,406
- Deferred tax	(706)	(345)	(657)	(833)
	(207)	2,614	3,277	11,573
	<u>(42,274)</u>	<u>18</u>	<u>(59,476)</u>	<u>10,927</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 9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	2,309	1,606	5,753	3,977
Depreciation of property and equipment	817	688	2,409	2,015
Investment income (Note 22)	(42,175)	(41,676)	(123,580)	(122,818)
Reversal of allowance of impairment loss on insurance receivables	-	-	(8)	-
Net foreign exchange gains	(42,262)	(2,632)	(63,066)	(713)
Net realised gains				
- realised losses on disposal of property and equipment	-	-	14	-
- realised gains on disposal of AFS investments	(3,074)	(14,058)	(18,666)	(46,122)
- realised gains on loans and receivables	-	-	(13)	-
	<u>(3,074)</u>	<u>(14,058)</u>	<u>(18,665)</u>	<u>(46,122)</u>

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

	3 months ended		Cumulative 9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting) (continued):				
Net fair value losses/(gains)				
- fair value gains on FVTPL investments/derivatives	51,517	(2,529)	72,527	(32,673)
- impairment loss on quoted equities	17,099	14	30,884	33
	68,616	(2,515)	103,411	(32,640)

25. Taxation

	3 months ended		Cumulative 9 months ended	
	30.09.2015	30.09.2014	30.09.2015	30.09.2014
	RM'000	RM'000	RM'000	RM'000
<u>Income tax</u>				
Current financial period	5,345	2,790	11,194	8,195
(Over)/under provision in prior financial year	(2,823)	841	(2,419)	841
	2,522	3,631	8,775	9,036
<u>Deferred tax</u>				
Reversal of temporary differences	(57)	(35)	(77)	(78)
Over provision in prior financial year	-	-	(180)	-
	(57)	(35)	(257)	(78)
	2,465	3,596	8,518	8,958

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 9 months ended	
	30.09.2015 RM'000	30.09.2014 RM'000	30.09.2015 RM'000	30.09.2014 RM'000
Profit before taxation	18,430	9,241	36,887	28,295
Taxation at Malaysian statutory tax rate of 25%	4,608	2,310	9,222	7,074
Section 110B tax credit set off	(447)	(731)	(1,446)	(1,798)
Income not subject to tax	(200)	(78)	(1,161)	(681)
Expenses not deductible for tax purposes	1,375	907	3,761	2,547
Unrecognised deferred tax assets	(48)	347	741	975
	5,288	2,755	11,117	8,117
(Over)/under provision in prior financial year				
- Current tax	(2,823)	841	(2,419)	841
- Deferred tax	-	-	(180)	-
	2,465	3,596	8,518	8,958

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 9 months ended	
		30.09.2015	30.09.2014	30.09.2015	30.09.2014
Net profit attributable to owners of the Company	(RM'000)	15,960	5,619	28,346	19,250
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	7.89	2.77	14.01	9.51

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 30.09.2015 RM'000	As at 31.12.2014 RM'000	As at 30.09.2015 RM'000	As at 31.12.2014 RM'000
Actuarial liabilities	2,164,323	2,133,716	2,162,076	2,132,685
Unallocated surplus	165,469	223,854	165,469	223,854
Fair value reserve	14,062	53,060	14,062	53,060
Asset revaluation reserve	641	641	641	641
Investment-linked policyholders' account	941,732	860,803	941,732	860,803
	<u>3,286,227</u>	<u>3,272,074</u>	<u>3,283,980</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	(14,866)	16,768	(14,866)	16,768
New business reserve	15,606	17,179	14,390	16,239
Discount rate and other changes	29,867	11,905	29,867	11,905
Unallocated surplus	(58,385)	21,267	(58,385)	21,267
Fair value reserve, net of tax	(38,998)	(62,071)	(38,998)	(62,071)
Investment-linked policyholders' account	80,929	194,198	80,929	194,198
At 30 September 2015/ 31 December 2014	<u>3,286,227</u>	<u>3,272,074</u>	<u>3,283,980</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 30.09.2015 RM'000	As at 31.12.2014 RM'000
Investment holding	17,228	7,967
Life insurance business:-		
Shareholders' fund	4,169	4,087
Non Investment-linked business	62,210	49,891
Investment-linked business	3,234	2,425
Asset management services	56,552	41,603
	<u>143,393</u>	<u>105,973</u>

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

	As at 30.09.2015 RM'000	As at 31.12.2014 RM'000
Capital expenditure commitments		
Property and equipment		
-Authorised but not provided for	<u>1,318</u>	<u>2,699</u>
Other commitments		
Exclusive bancassurance agreement		
-Authorised but not provided for	<u>23,250</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 September 2015					
Financial assets					
AFS financial assets	2,619,493	-	-	-	2,619,493
Financial assets at FVTPL	-	1,076,818	-	-	1,076,818
Loans and receivables	-	-	585,732	-	585,732
Insurance receivables	-	-	19,106	-	19,106
Cash and cash equivalents	-	-	143,393	-	143,393
	<u>2,619,493</u>	<u>1,076,818</u>	<u>748,231</u>	<u>-</u>	<u>4,444,542</u>
Financial liabilities					
Financial liabilities at FVTPL	-	7,949	-	-	7,949
Insurance payables	-	-	-	416,972	416,972
Other payables	-	-	-	148,412	148,412
	<u>-</u>	<u>7,949</u>	<u>-</u>	<u>565,384</u>	<u>573,333</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
	<u>2,617,754</u>	<u>960,873</u>	<u>793,255</u>	<u>-</u>	<u>4,371,882</u>
Financial liabilities					
Financial liabilities at FVTPL	-	700	-	-	700
Insurance payables	-	-	-	396,502	396,502
Other payables	-	-	-	120,947	120,947
	<u>-</u>	<u>700</u>	<u>-</u>	<u>517,449</u>	<u>518,149</u>

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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Interim financial statements for the nine months period ended 30 September 2015

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 30.09.2015 RM'000	As at 31.12.2014 RM'000	As at 30.09.2015 RM'000	As at 31.12.2014 RM'000
Carrying amount*	20,268	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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 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 nine months period ended 30 September 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 September 2015				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	673,304	673,304	-	-
Unit trust funds	100,445	100,445	-	-
Real estate investment trust	3,104	3,104		
Malaysian Government Securities	643,098	-	643,098	-
Government Investment Issues	138,560	-	138,560	-
Corporate debt securities				
- Unquoted	1,037,789	-	1,037,789	-
Accrued interest	20,677	-	20,677	-
	<u>2,616,977</u>	<u>776,853</u>	<u>1,840,124</u>	<u>-</u>
Financial assets at FVTPL				
Equity securities				
- Quoted in Malaysia	333,613	333,613	-	-
- Quoted outside Malaysia	4,369	4,369	-	-
Unit trust funds				
- Quoted in Malaysia	4,070	4,070	-	-
Malaysian Government Securities	55,477	-	55,477	-
Government Investment Issues	9,030	-	9,030	-
Corporate debt securities				
- Unquoted	212,803	-	212,803	-
Mutual funds	454,236	454,236	-	-
Derivatives				
- Forward foreign exchange contract	113	-	113	-
Accrued interest	3,107	-	3,107	-
	<u>1,076,818</u>	<u>796,288</u>	<u>280,530</u>	<u>-</u>
Financial liabilities at FVTPL				
Derivatives				
- Forward foreign exchange contract	7,949	-	7,949	-

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 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	-

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 nine months period ended 30 September 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 30.09.2015	As at 31.12.2014
	RM'000	RM'000
Total retained earnings of the Group:		
- Realised	555,342	548,499
- Unrealised	81,407	80,488
	<u>636,749</u>	<u>628,987</u>
Consolidation adjustments	15,917	15,570
Total retained earnings as per statement of financial position	<u>652,666</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
25 November 2015

Chin Mun Yee
Joint Secretary