

MANULIFE HOLDINGS BERHAD

Interim financial statements for the three months period ended 31 March 2016

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 2015, 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 2015.

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 2015, except for the adoption of the following amendments/improvements to MFRS:

<u>Description</u>	<u>Effective Date</u>
Amendments to MFRS 11 Accounting for Acquisitions of Interest in Joint Operations	1 January 2016
Amendments to MFRS 116, Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 127 Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Annual Improvements to MFRSs 2012–2015 Cycle	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016

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 2015.

4. Seasonal/cyclical factors

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

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 31 March 2016.

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6. Change in estimates

In general, the Group's insurance subsidiary, Manulife Insurance Berhad valued its policy liabilities using a prospective actuarial valuation. The expected future liability cash flows are determined using best estimate assumption with the appropriate allowance for provision of risk charge for adverse deviation from expected experience. Valuation assumptions used includes mortality, morbidity, lapse, expense, Participating life fund expected long term yield and Malaysian Government Securities (MGS) risk-free interest rate.

For the current period ended 31 March 2016, the applicable assumption changes resulted in higher actuarial liabilities of RM48.6 million (31 March 2015: higher actuarial liabilities of RM28.2 million), with a corresponding decrease in unallocated surplus for the participating business of RM35.5 million (31 March 2015: decrease in unallocated surplus of RM20.4 million) and decrease in net profit before tax of RM13.1 million (31 March 2015: decrease in net profit before tax RM7.8 million).

Other than as disclosed above, there were no changes in the basis used for accounting estimates for the current financial period ended 31 March 2016.

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 2016.

8. Dividends

A first and final dividend of 9.0 sen per share, amounting to RM18,213,300 for the financial year ended 31 December 2015, was approved at the Annual General Meeting held on 20 May 2016 and the dividend will be paid on 16 June 2016.

No dividend has been declared in respect of the current financial period ended 31 March 2016.

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 were no significant changes in the composition of the Group for the current financial period to date.

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 financial year prospects

Group earnings are expected to remain challenging for the remainder of the year. Earnings pressure arose mainly from worsening claims experience and high medical costs, increasing production related expenses and channel distribution expansion costs. The movement in MGS interest rates will give rise to volatility in insurance contract liabilities and earnings of the insurance business. The uncertain and challenging global and regional market volatility as well as weak crude oil prices will continue to weigh down the overall market sentiment impacting our wealth business.

The Group will persist in looking at operational synergies and resource optimization between the insurance and wealth businesses to improve efficiencies. The Group will continue its effort to better understand and improve engagement with its customers via multiple distribution channels and digital means. We will strive to be innovative in our product development and continue being the “first-in-market” solutions provider. This will include the way financial solutions are packaged and marketed that can best help to achieve the Group’s bottom line while providing products through needs-based sales process.

13. Profit forecast

The Group did not issue any profit forecast during the financial period ended 31 March 2016.

14. Group borrowings

The Group does not have any borrowings as at 31 March 2016.

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 3 months ended 31 March							
	Investment holding		Life insurance business		Asset management services		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	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	-	-	214,783	133,847	-	-	214,783	133,847
Premiums ceded to reinsurers	-	-	(5,068)	(2,769)	-	-	(5,068)	(2,769)
Net premiums	-	-	209,715	131,078	-	-	209,715	131,078
(b) Investment income	3,130	3,571	37,938	34,504	258	233	41,326	38,308
(c) Net realised gains/(losses)	15	(409)	7,137	7,084	-	-	7,152	6,675
(d) Net fair value (losses)/gains	(108)	(100)	13,492	(1,696)	-	3	13,384	(1,793)
(e) Fee income	-	-	-	-	14,289	13,720	14,289	13,720
(f) Other operating income	8	-	300	442	4	58	312	500
Total external revenue	3,045	3,062	268,582	171,412	14,551	14,014	286,178	188,488
<u>Inter-segment revenue</u>								
(a) Rental income	275	256	165	102	-	-	440	358
(b) Fee income	118	104	834	518	3,272	2,767	4,224	3,389
(c) Dividend Income	-	-	938	651	-	-	938	651
(d) Net realised gains	-	-	121	155	-	-	121	155
(e) Fair value gains	-	-	-	1	-	-	-	1
Total inter-segment revenue	393	360	2,058	1,427	3,272	2,767	5,723	4,554
Total revenue by segment	3,438	3,422	270,640	172,839	17,823	16,781	291,901	193,042
(Loss)/profit before taxation	(650)	(210)	3,010	7,281	(788)	(568)	1,572	6,503
Segment assets	764,137	716,069	4,590,757	4,281,215	127,811	169,704	5,482,705	5,166,988
Segment liabilities	11,697	16,402	4,137,406	3,860,714	82,793	117,480	4,231,896	3,994,596

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Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 3 months ended	
	31.3.2016	31.3.2015
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	291,901	193,042
Elimination of inter-segment revenue	(5,723)	(4,554)
Total revenue as per statement of profit or loss	286,178	188,488
	As at	As at
	31.03.2016	31.03.2015
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	5,482,705	5,166,988
Elimination of inter-segment assets	(481,104)	(419,028)
Total assets as per statement of financial position	5,001,601	4,747,960
Segment liabilities		
Total liabilities for reportable segments	4,231,896	3,994,596
Elimination of inter-segment liabilities	(9,869)	(21,330)
Total liabilities as per statement of financial position	4,222,027	3,973,266

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 2016 vs 1st Quarter 2015

The Group's operating revenue for the quarter ended 31 March 2016 increased by 45.4% or RM84.5 million compared to the corresponding quarter ended 31 March 2015 (2016: RM270.4 million, 2015: RM185.9 million). The Group's profit before tax was RM1.6 million for the current quarter, RM4.9 million lower as compared to the profit before tax in the corresponding quarter ended 31 March 2015 of RM6.5 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue was RM0.5 million lower as compared to the preceding year's corresponding quarter (2016: RM3.1 million, 2015: RM3.6 million) due to lower investment income from fixed income securities.

Life insurance business – Operating revenue of the life insurance business increased by RM84.3 million (2016: RM252.7 million, 2015: RM168.4 million) mainly due to higher contribution from investment-linked business as compared to Q1 2015. Profit before tax was RM4.3 million lower in the current quarter (2016: RM3.0 million, 2015: RM7.3 million) mainly due to worsened claim experience and higher production related expenses incurred compared to last year corresponding quarter. In addition, lower MGS yield in both quarters has resulted in lower profit before tax and reserve strengthening.

Asset management services – Operating revenue increased RM0.6 million compared to preceding year's corresponding quarter (2016: RM14.5 million, 2015: RM13.9 million). However, loss before tax (2016: RM0.8 million, 2015: RM0.6 million) was RM0.2 million less favourable due to higher expenses.

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

The Group reported lower profit before tax of RM1.6 million for the current quarter under review as compared to the profit before tax of RM11.0 million in the preceding quarter ended 31 December 2015. The decrease of RM9.4 million was mainly attributable to lower surplus transfer from participating life business and reserve strengthening as a result of lower MGS yield in the current quarter.

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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 3 months ended	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	RM'000	RM'000	RM'000	RM'000
First year premium	24,953	17,814	24,953	17,814
Renewal year premium	107,701	106,045	107,701	106,045
Single premium	77,061	7,219	77,061	7,219
Total	209,715	131,078	209,715	131,078

22. Investment income

	3 months ended		Cumulative 3 months ended	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
<u>- designated upon initial recognition</u>				
Interest/profit income	3,459	3,305	3,459	3,305
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	2,569	1,443	2,569	1,443
- quoted outside Malaysia	14	-	14	-
- mutual funds – outside Malaysia	1,694	871	1,694	871
Accretion of discounts, net of amortisation of premiums	(56)	21	(56)	21
<u>AFS financial assets</u>				
Interest/profit income	21,240	19,038	21,240	19,038
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	4,691	4,534	4,691	4,534
Accretion of discounts, net of amortisation of premiums	27	313	27	313
<u>Loans and receivables</u>				
Interest/profit income	5,487	6,392	5,487	6,392
Accretion of discounts, net of amortisation of premiums	484	657	484	657
<u>Investment properties</u>				
Rental income	1,481	1,621	1,481	1,621
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	236	113	236	113
	41,326	38,308	41,326	38,308

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Notes to the Interim Financial Statements (Continued)

23. Other expenses/(income)

	3 months ended		Cumulative 3 months ended	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange loss/(gains)	38,685	(14,385)	38,685	(14,385)
Interest expense on agent's bond withheld	4	5	4	5
Others	77	74	77	74
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	6,865	1,522	6,865	1,522
- Deferred tax	(5,296)	1,481	(5,296)	1,481
	1,569	3,003	1,569	3,003
	<u>40,335</u>	<u>(11,303)</u>	<u>40,335</u>	<u>(11,303)</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% (2015: 8%) of the assessable investment income, net of allowable deductions for the financial period.

24. Profit before taxation

	3 months ended		Cumulative 3 months ended	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	3,080	1,401	3,080	1,401
Depreciation of property and equipment	814	794	814	794
Investment income (Note 22)	(41,326)	(38,308)	(41,326)	(38,308)
Reversal of allowance of impairment loss on policy loans	(7)	-	(7)	-
Allowance of impairment loss on insurance receivables	-	3	-	3
Net foreign exchange loss/(gains)	38,685	(14,385)	38,685	(14,385)
Net realised gains				
- realised losses on disposal of property and equipment	-	14	-	14
- realised gains on disposal of AFS investments	(7,152)	(6,689)	(7,152)	(6,689)
	<u>(7,152)</u>	<u>(6,675)</u>	<u>(7,152)</u>	<u>(6,675)</u>

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Notes to the Interim Financial Statements (Continued)

24. Profit before taxation (continued)

	3 months ended		Cumulative 3 months ended	
	31.03.2016 RM'000	31.03.2015 RM'000	31.03.2016 RM'000	31.03.2015 RM'000
Profit before taxation is arrived at after charging/(crediting) (continued):				
Net fair value (gains)/losses				
- fair value (gains)/losses on FVTPL investments/derivatives	(19,275)	1,699	(19,275)	1,699
- impairment loss on quoted equities	5,891	94	5,891	94
	(13,384)	1,793	(13,384)	1,793

25. Taxation

	3 months ended		Cumulative 3 months ended	
	31.03.2016 RM'000	31.03.2015 RM'000	31.03.2016 RM'000	31.03.2015 RM'000
<u>Income tax</u>				
Current financial period	1,485	1,897	1,485	1,897
Under provision in prior financial period	-	415	-	415
	1,485	2,312	1,485	2,312
<u>Deferred tax</u>				
Reversal of temporary differences	(31)	(11)	(31)	(11)
Over provision in prior financial period	-	(180)	-	(180)
	(31)	(191)	(31)	(191)
	1,454	2,121	1,454	2,121

The income tax for the Group is calculated based on the tax rate of 24% (2015: 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	
	31.03.2016 RM'000	31.03.2015 RM'000	31.03.2016 RM'000	31.03.2015 RM'000
Profit before taxation	1,572	6,503	1,572	6,503
Taxation at Malaysian statutory tax rate of 24% (2015:25%)	377	1,626	377	1,626
Section 110B tax credit set off	(277)	(602)	(277)	(602)
Income not subject to tax	(511)	(149)	(511)	(149)
Expenses not deductible for tax purposes	2,010	901	2,010	901
Changes in unrecognised deferred tax assets	(145)	110	(145)	110
	1,454	1,886	1,454	1,886
Under/(over) provision in prior financial period				
- Current tax	-	415	-	415
- Deferred tax	-	(180)	-	(180)
	1,454	2,121	1,454	2,121

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 3 months ended	
		31.03.2016	31.03.2015	31.03.2016	31.03.2015
Net profit attributable to owners of the Company	(RM'000)	113	4,376	113	4,376
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	0.06	2.16	0.06	2.16

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 31.03.2016 RM'000	As at 31.12.2015 RM'000	As at 31.03.2016 RM'000	As at 31.12.2015 RM'000
Actuarial liabilities	2,226,539	2,163,399	2,223,292	2,160,641
Unallocated surplus	117,959	162,694	117,959	162,694
Fair value reserve	101,746	53,087	101,746	53,087
Asset revaluation reserve	842	842	842	842
Investment-linked policyholders' account	1,065,039	1,025,290	1,065,039	1,025,290
	<u>3,512,125</u>	<u>3,405,312</u>	<u>3,508,878</u>	<u>3,402,554</u>

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

	Gross		Net	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	3,405,312	3,272,074	3,402,554	3,271,043
Inforce reserve movement	6,425	(19,680)	6,425	(19,680)
New business reserve	8,116	23,466	7,627	21,739
Discount rate and other changes	48,599	25,897	48,599	25,897
Unallocated surplus	(44,735)	(61,160)	(44,735)	(61,160)
Fair value reserve, net of tax	48,659	27	48,659	27
Asset revaluation reserve	-	201	-	201
Investment-linked policyholders' account	39,749	164,487	39,749	164,487
At 31 March	<u>3,512,125</u>	<u>3,405,312</u>	<u>3,508,878</u>	<u>3,402,554</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 31.03.2016 RM'000	As at 31.12.2015 RM'000
Investment holding	3,629	14,947
Life insurance business:-		
Shareholders' fund	9,305	9,135
Non Investment-linked business	52,869	50,571
Investment-linked business	5,255	4,872
Asset management services	45,853	44,048
	<u>116,911</u>	<u>123,573</u>

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

	As at 31.03.2016 RM'000	As at 31.12.2015 RM'000
Other commitments		
Exclusive bancassurance agreement		
-Authorised but not provided for	<u>21,750</u>	<u>22,500</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
31 March 2016					
Financial assets					
AFS financial assets	2,806,215	-	-	-	2,806,215
Financial assets at FVTPL	-	1,232,427	-	-	1,232,427
Loans and receivables	-	-	566,267	-	566,267
Insurance receivables	-	-	18,862	-	18,862
Cash and cash equivalents	-	-	116,911	-	116,911
	<u>2,806,215</u>	<u>1,232,427</u>	<u>702,040</u>	<u>-</u>	<u>4,740,682</u>
Financial liabilities					
Financial liabilities at FVTPL	-	16	-	-	16
Insurance payables	-	-	-	436,698	436,698
Other payables	-	-	-	181,014	181,014
	<u>-</u>	<u>16</u>	<u>-</u>	<u>617,712</u>	<u>617,728</u>

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

Group	<u>AFS</u> RM'000	<u>FVTPL</u> RM'000	<u>LAR</u> RM'000	<u>OL</u> RM'000	<u>Total</u> RM'000
31 December 2015					
Financial assets					
AFS financial assets	2,718,121	-	-	-	2,718,121
Financial assets at FVTPL	-	1,156,464	-	-	1,156,464
Loans and receivables	-	-	578,448	-	578,448
Insurance receivables	-	-	26,177	-	26,177
Cash and cash equivalents	-	-	123,573	-	123,573
	<u>2,718,121</u>	<u>1,156,464</u>	<u>728,198</u>	<u>-</u>	<u>4,602,783</u>
Financial liabilities					
Insurance payables	-	-	-	432,428	432,428
Other payables	-	-	-	167,258	167,258
	<u>-</u>	<u>-</u>	<u>-</u>	<u>599,686</u>	<u>599,686</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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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 3 of the fair value hierarchy. The fair value of the properties is as follows:

	Freehold properties		Investment properties	
	As at 31.03.2016	As at 31.12.2015	As at 31.03.2016	As at 31.12.2015
	RM'000	RM'000	RM'000	RM'000
Carrying amount	20,712	20,875	88,125	88,125
Fair value as stated in valuation report*	20,875	20,875	88,125	88,125
Last recognised revalued amount	20,875	20,875	88,125	88,125

* Based on the valuation conducted by an independent qualified valuer in 2015.

Description of valuation techniques used and significant unobservable inputs to valuation of freehold properties and investment properties:

	Valuation technique	Significant unobservable inputs	Range
2015			
Freehold/ investment properties	Income method	Initial net yield Reversionary net yield Void factor Average rental for term period Average rental for reversionary period	6.00% 6.25% 5.00% RM4.29 - RM4.80 psf RM4.60 psf

Significant increase or decrease in each of the unobservable inputs used in the valuation would result in a correspondingly higher or lower fair value of the properties.

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Interim financial statements for the three months period ended 31 March 2016

Notes to the Interim Financial Statements (Continued)

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

b) Financial assets and financial liabilities (continued)

(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.

(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 three months period ended 31 March 2016

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
31 March 2016			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	752,624	752,624	-
Unit trust funds	74,748	74,748	-
Real estate investment trust	1,881	1,881	-
Malaysian Government Securities	594,491	-	594,491
Government Investment Issues	198,318	-	198,318
Corporate debt securities			
- Unquoted	1,158,977	-	1,158,977
Accrued interest	22,660	-	22,660
	<u>2,803,699</u>	<u>829,253</u>	<u>1,974,446</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	399,549	399,549	-
- Quoted outside Malaysia	4,905	4,905	-
Unit trust funds			
- Quoted in Malaysia	5,869	5,869	-
Malaysian Government Securities	59,392	-	59,392
Government Investment Issues	14,649	-	14,649
Corporate debt securities			
- Unquoted	228,428	-	228,428
Mutual funds	506,884	506,884	-
Derivatives			
- Forward foreign exchange contract	9,176	-	9,176
Accrued interest	3,575	-	3,575
	<u>1,232,427</u>	<u>917,207</u>	<u>315,220</u>
Financial assets at FVTPL			
Derivatives			
- Forward foreign exchange contract	16	-	16

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Interim financial statements for the three months period ended 31 March 2016

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
31 December 2015			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	738,036	738,036	-
Unit trust funds	104,245	104,245	-
Real estate investment trust	3,131	3,131	-
Malaysian Government Securities	592,609	-	592,609
Government Investment Issues	192,170	-	192,170
Corporate debt securities			
- Unquoted	1,067,122	-	1,067,122
Accrued interest	18,292	-	18,292
	<u>2,715,605</u>	<u>845,412</u>	<u>1,870,193</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	377,602	377,602	-
- Quoted outside Malaysia	4,890	4,890	-
Unit trust funds			
- Quoted in Malaysia	5,151	5,151	-
Malaysian Government Securities	67,339	-	67,339
Government Investment Issues	14,198	-	14,198
Corporate debt securities			
- Unquoted	201,739	-	201,739
Mutual funds	481,863	481,863	-
Derivatives			
- Forward foreign exchange contract	1,113	-	1,113
Accrued interest	2,569	-	2,569
	<u>1,156,464</u>	<u>869,506</u>	<u>286,958</u>

Unquoted equity securities of RM 2,516,566 (31 December 2015: 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.

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Interim financial statements for the three months period ended 31 March 2016

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 31.03.2016 RM'000	As at 31.12.2015 RM'000
Total retained earnings of the Group:		
- Realised	558,440	562,459
- Unrealised	85,618	81,486
	<u>644,058</u>	<u>643,945</u>
Consolidation adjustments	15,917	15,917
Total retained earnings as per statement of financial position	<u>659,975</u>	<u>659,862</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
30 May 2016

Chin Mun Yee
Joint Secretary