

MANULIFE HOLDINGS BERHAD

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

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 Group is still assessing the financial impact and the additional disclosure requirements to the financial statements of the Group from the new MFRSs, amendments/improvements to MFRSs that are issued by MASB but not yet effective in the current year.

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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 30 September 2016.

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 30 September 2016, the applicable assumption changes resulted in higher actuarial liabilities of RM124.9 million (30 September 2015: higher actuarial liabilities of RM29.9 million), with a corresponding decrease in unallocated surplus for the participating business of RM104.3 million (30 September 2015: decrease in unallocated surplus of RM32.0 million) and decrease in net profit before tax of RM20.6 million (30 September 2015: increase in net profit before tax RM2.1 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 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 30 September 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 was paid on 16 June 2016.

No dividend has been declared in respect of the current financial period ended 30 September 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, other than the completion of the liquidation process of two of its subsidiaries.

11. Contingent liabilities

There are no contingent liabilities as at the date of this report since the date of the last annual statement of financial position.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)

12. Current financial year prospects

The global market volatility driven by low crude oil price and uncertain political environment in the US are negatively affecting the economy in Malaysia, which consequently putting downward pressure on the insurance and wealth businesses. In addition, the local currency which continues to remain weak and volatile against most major currencies has further dampened investment sentiment among investors.

Group earnings are expected to continue to remain challenging for the rest of the year. Earnings pressure arose mainly from low interest environment, worsening claims experience and high medical costs, as well as channel distribution expansion costs. The movement in MGS yield rates will give rise to volatility in the insurance contract liabilities and earnings of the insurance business. The recent lowering of the MGS yield rate led to reserve strengthening and lowered earnings.

The Group will continue to take a considered approach to optimise the utilisation and allocation of resources along the growth journey towards enhancing our brand and improving customer engagement and experience via multiple distribution channels and digital means.

13. Profit forecast

The Group did not issue any profit forecast during the financial period ended 30 September 2016.

14. Group borrowings

The Group does not have any borrowings as at 30 September 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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)

18. Operating segments

The core businesses of the Group are that of life insurance business, management of unit trust funds, private retirement scheme funds, investment 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 life 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	
	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	-	-	653,409	553,864	-	-	653,409	553,864
Premiums ceded to reinsurers	-	-	(18,601)	(10,835)	-	-	(18,601)	(10,835)
Net premiums	-	-	634,808	543,029	-	-	634,808	543,029
(b) Investment income	10,290	11,502	120,768	111,283	572	795	131,630	123,580
(c) Net realised (losses)/gains	(34)	(540)	7,007	19,205	-	-	6,973	18,665
(d) Net fair value (losses)/gains	(312)	(981)	(8,068)	(128,514)	(5)	3	(8,385)	(129,492)
(e) Fee income	-	-	-	-	44,073	43,522	44,073	43,522
(f) Other operating income	52	-	897	1,259	24	136	973	1,395
Total external revenue	9,996	9,981	755,412	546,262	44,664	44,456	810,072	600,699
<u>Inter-segment revenue</u>								
(a) Rental income	835	810	553	350	-	-	1,388	1,160
(b) Fee income	619	355	2,468	2,506	7,609	8,264	10,696	11,125
(c) Dividend Income	-	-	3,001	2,808	-	-	3,001	2,808
(d) Net realised gains	-	-	403	609	-	-	403	609
Total inter-segment revenue	1,454	1,165	6,425	6,273	7,609	8,264	15,488	15,702
Total revenue by segment	11,450	11,146	761,837	552,535	52,273	52,720	825,560	616,401
Profit/(loss) before taxation	(673)	(63)	31,513	40,768	(3,939)	(3,818)	26,901	36,887
Segment assets	636,584	709,440	4,772,967	4,322,624	131,290	118,021	5,540,841	5,150,085
Segment liabilities	13,824	6,617	4,289,639	3,880,102	89,482	69,047	4,392,945	3,955,766

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 9 months ended	
	30.9.2016	30.9.2015
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	825,560	616,401
Elimination of inter-segment revenue	(15,488)	(15,702)
Total revenue as per statement of profit or loss	810,072	600,699
	As at	As at
	30.09.2016	30.09.2015
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	5,540,841	5,150,085
Elimination of inter-segment assets	(338,840)	(434,662)
Total assets as per statement of financial position	5,202,001	4,715,423
Segment liabilities		
Total liabilities for reportable segments	4,392,945	3,955,766
Elimination of inter-segment liabilities	22,367	(11,610)
Total liabilities as per statement of financial position	4,415,312	3,944,156

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 2016 vs Financial Period ended 30 September 2015

The Group's operating revenue for the financial period ended 30 September 2016 (Year-to-Date ("YTD") September 2016), recorded an increase of 15.0% or RM108.1 million compared to the corresponding financial period ended 30 September 2015 (YTD September 2015) (2016: RM829.1 million, 2015: RM721.0 million). The Group's profit before tax was however, lower by RM10.0 million as compared to the profit before tax in the corresponding YTD 30 September 2015 (2016: RM26.9 million, 2015: RM36.9 million).

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue declined RM1.2 million compared to the preceding year's corresponding period (2016: RM10.3 million, 2015: RM11.5 million) largely due to lower investment income from fixed income securities.

Life insurance business – Operating revenue of the life insurance business grew 16.4% or RM109.1 million (2016: RM774.2 million, 2015: RM665.1 million) largely attributable to higher contribution from investment-linked business as compared to YTD September 2015. However, profit before tax was RM9.3 million lower compared to YTD September 2015 (2016: RM31.5 million, 2015: RM40.8 million) mainly due to reserve strengthening as a result of lower MGS yield, higher expenses and worsened claims experience.

Asset management services – Operating revenue was RM0.3 million higher as compared to YTD September 2015 (2016: RM44.6 million, 2015: RM44.3 million). Loss before tax slightly increased by RM0.1 million (2016: RM3.9 million, 2015: RM3.8 million) mainly due to higher staff related expenses.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

3rd Quarter 2016 vs 3rd Quarter 2015

The Group's operating revenue for the quarter ended 30 September 2016 decreased by 2.8% or RM7.8 million compared to the corresponding quarter ended 30 September 2015 (2016: RM273.0 million, 2015: RM280.8 million). The Group's profit before tax was RM17.6 million for the current quarter, RM0.8 million lower as compared to the profit before tax in the corresponding quarter ended 30 September 2015 of RM18.4 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue slipped 8% or RM0.3 million as compared to the preceding year's corresponding quarter (2016: RM3.3 million, 2015: RM3.6 million) due to lower investment income from fixed income securities.

Life insurance business – Operating revenue of the life insurance business decreased by RM8.0 million (2016: RM254.1 million, 2015: RM262.1 million) mainly due to lower contribution from investment-linked business as compared to Q3 2015. Profit before tax was RM0.7 million higher in the current quarter (2016: RM20.2 million, 2015: RM19.5 million) due to higher new business gains.

Asset management services – Operating revenue improved marginally by 4% or RM0.6 million compared to preceding year's corresponding quarter (2016: RM15.6 million, 2015: RM15.0 million). Loss before tax increased by RM1.5 million (2016: RM1.7 million, 2015: RM0.2 million) partly due to adjustment of commission expenses in 2015.

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

The Group recorded higher profit before tax of RM17.6 million for the current quarter under review as compared to the profit before tax of RM7.7 million in the preceding quarter ended 30 June 2016. The increase of RM9.9 million was mainly attributable to higher new business gains compared to the preceding quarter and improved claim experience.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

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	
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
First year premium	25,475	23,888	80,189	64,975
Renewal year premium	137,313	125,033	370,734	350,300
Single premium	42,044	70,536	183,885	127,754
Total	204,832	219,457	634,808	543,029

22. Investment income

	3 months ended		Cumulative 9 months ended	
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
<u>- designated upon initial recognition</u>				
Interest/profit income	3,491	3,261	10,352	9,816
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	3,638	1,957	9,898	7,201
- quoted outside Malaysia	26	99	66	99
- mutual funds – outside Malaysia	1,724	1,740	5,004	3,662
Accretion of discounts, net of amortisation of premiums	13	(46)	55	(59)
<u>AFS financial assets</u>				
Interest/profit income	22,710	20,329	65,644	58,827
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	6,454	6,153	17,365	16,587
- unquoted in Malaysia	299	-	299	105
Accretion of discounts, net of amortisation of premiums	20	(58)	82	428
<u>Loans and receivables</u>				
Interest/profit income	5,025	6,089	16,430	18,900
Accretion of discounts, net of amortisation of premiums	-	674	484	1,996
<u>Investment properties</u>				
Rental income	1,852	1,787	5,166	5,646
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	279	190	785	372
	45,531	42,175	131,630	123,580

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)

23. Other operating (income)/expenses

	3 months ended		Cumulative 9 months ended	
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange (gains)/losses	(17,206)	(62,202)	7,596	(89,147)
Interest expense on agent's bond withheld	4	5	13	16
Others	107	190	351	297
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	3,009	499	11,824	3,934
- Deferred tax	1,363	(706)	(4,033)	(657)
	4,372	(207)	7,791	3,277
	(12,723)	(62,214)	15,751	(85,557)

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 9 months ended	
	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	2,089	2,309	7,882	5,753
Depreciation of property and equipment	859	817	2,474	2,409
Investment income (Note 22)	(45,531)	(42,175)	(131,630)	(123,580)
Reversal of allowance of impairment loss on policy loans	(13)	-	(3)	-
Reversal of allowance of impairment loss on insurance receivables	-	-	-	(8)
Allowance of impairment on other receivables	-	-	9	-
Net foreign exchange (gains)/losses	(17,206)	(62,202)	7,596	(89,147)
Net realised gains				
- realised (gains)/ losses on disposal of property and equipment	(42)	-	(42)	14
- realised gains on disposal of AFS investments	(42)	(3,074)	(6,931)	(18,666)
- realised gains on loans and receivables	-	-	-	(13)
	(84)	(3,074)	(6,973)	(18,665)

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

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

	3 months ended		Cumulative 9 months ended	
	30.09.2016 RM'000	30.09.2015 RM'000	30.09.2016 RM'000	30.09.2015 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	(5,663)	71,457	(10,642)	98,608
- impairment loss on quoted equities	5,630	17,099	19,027	30,884
	(33)	88,556	8,385	129,492

25. Taxation

	3 months ended		Cumulative 9 months ended	
	30.09.2016 RM'000	30.09.2015 RM'000	30.09.2016 RM'000	30.09.2015 RM'000
<u>Income tax</u>				
Current financial period	4,180	5,345	7,811	11,194
Under/(over) provision in prior financial period	388	(2,823)	389	(2,419)
	4,568	2,522	8,200	8,775
<u>Deferred tax</u>				
Origination and reversal of temporary differences	401	(57)	287	(77)
Over provision in prior financial period	-	-	-	(180)
	401	(57)	287	(257)
	4,969	2,465	8,487	8,518

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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

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	
	30.09.2016 RM'000	30.09.2015 RM'000	30.09.2016 RM'000	30.09.2015 RM'000
Profit before taxation	17,649	18,430	26,901	36,887
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	4,236	4,608	6,456	9,222
Section 110B tax credit set off	(1,143)	(447)	(2,284)	(1,446)
Income not subject to tax	(854)	(200)	(1,538)	(1,161)
Expenses not deductible for tax purposes	2,516	1,375	5,053	3,761
Changes in unrecognised deferred tax assets	(174)	(48)	411	741
	4,581	5,288	8,098	11,117
Under/(over) provision in prior financial period				
- Current tax	388	(2,823)	389	(2,419)
- Deferred tax	-	-	-	(180)
	4,969	2,465	8,487	8,518

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	
		30.09.2016	30.09.2015	30.09.2016	30.09.2015
Net profit attributable to owners of the Company	(RM'000)	12,638	15,960	18,345	28,346
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	6.25	7.89	9.07	14.01

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 have not been presented.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

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 30.09.2016 RM'000	As at 31.12.2015 RM'000	As at 30.09.2016 RM'000	As at 31.12.2015 RM'000
Actuarial liabilities	2,326,841	2,163,399	2,322,589	2,160,641
Unallocated surplus	23,181	162,694	23,181	162,694
Fair value reserve	120,245	53,087	120,245	53,087
Asset revaluation reserve	842	842	842	842
Investment-linked policyholders' account	1,171,446	1,025,290	1,171,446	1,025,290
	<u>3,642,555</u>	<u>3,405,312</u>	<u>3,638,303</u>	<u>3,402,554</u>

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

	Gross		Net	
	As at 30.09.2016 RM'000	As at 31.12.2015 RM'000	As at 30.09.2016 RM'000	As at 31.12.2015 RM'000
At 1 January	3,405,312	3,272,074	3,402,554	3,271,043
Inforce reserve movement	19,051	(19,680)	19,051	(19,680)
New business reserve	19,531	23,466	18,037	21,739
Discount rate and other changes	124,860	25,897	124,860	25,897
Unallocated surplus	(139,513)	(61,160)	(139,513)	(61,160)
Fair value reserve, net of tax	67,158	27	67,158	27
Asset revaluation reserve	-	201	-	201
- Revaluation adjustment	-	(391)	-	(391)
- Reversal on revaluation	-	592	-	592
	-	201	-	201
Investment-linked policyholders' account	146,156	164,487	146,156	164,487
At 30 September/31 December	<u>3,642,555</u>	<u>3,405,312</u>	<u>3,638,303</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 30.09.2016 RM'000	As at 31.12.2015 RM'000
Investment holding	8,703	14,947
Life insurance business:-		
Shareholders' fund	10,164	9,135
Non Investment-linked business	72,130	50,571
Investment-linked business	2,320	4,872
Asset management services	39,141	44,048
	<u>132,458</u>	<u>123,573</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)**29. Significant related party transactions**

Related party transactions have been entered into in the normal course of business under negotiated terms with the respective parties. The significant related party transactions during the financial period between the Group and their related parties are set out as below:

	<u>30.09.2016</u>	<u>Cumulative 9 months ended 30.09.2015</u>
Expenses:		
Intermediate holding company		
Reimbursement of personnel expenses	3,957	2,118
Reimbursement of software maintenance expenses	<u>4,043</u>	<u>3,858</u>
Subsidiaries of ultimate holding company		
Outsourced information technology service expenses	2,739	3,496
Software development expenses	<u>4,502</u>	<u>4,480</u>

30. Capital and other commitments

	<u>As at 30.09.2016 RM'000</u>	<u>As at 31.12.2015 RM'000</u>
Other commitments		
Exclusive bancassurance agreement		
-Authorised but not provided for	<u>20,250</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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)**31. 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 2016					
Financial assets					
AFS financial assets	2,991,748	-	-	-	2,991,748
Financial assets at FVTPL	-	1,342,927	-	-	1,342,927
Loans and receivables	-	-	454,774	-	454,774
Insurance receivables	-	-	18,200	-	18,200
Cash and cash equivalents	-	-	132,458	-	132,458
	<u>2,991,748</u>	<u>1,342,927</u>	<u>605,432</u>	<u>-</u>	<u>4,940,107</u>
Financial liabilities					
Insurance payables	-	-	-	461,019	461,019
Other payables	-	-	-	214,330	214,330
	<u>-</u>	<u>-</u>	<u>-</u>	<u>675,349</u>	<u>675,349</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)**31. 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 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>

32. Determination of fair values and fair value hierarchy**a) Freehold property and investment property**

The fair value of the Group's freehold property and investment property 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.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)**32. Determination of fair values and fair value hierarchy (continued)****a) Freehold property and investment property (continued)**

The fair value of freehold property and investment property is classified within Level 3 of the fair value hierarchy. The fair value of the property is as follows:

	Freehold property		Investment property	
	As at 30.09.2016	As at 31.12.2015	As at 30.09.2016	As at 31.12.2015
	RM'000	RM'000	RM'000	RM'000
Carrying amount	20,385	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 on 15 December 2015.

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

	Valuation technique	Significant unobservable inputs	Range
2015			
Freehold/ investment property	Income method	Term period's net yield Reversionary period's 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.

The reconciliation from beginning to ending balances for the freehold property and investment property are as follows:

	Freehold property		Investment property	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
At 1 January	20,875	20,087	88,125	84,292
Depreciation charge for the period/year	(490)	(643)	-	-
Additions during the period/year	-	1,005	-	3,396
Fair value gain	-	426	-	437
At 30 September/31 December	20,385	20,875	88,125	88,125

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)

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

b) Financial assets and financial liabilities

(i) Determination of fair values

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

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)**32. 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
30 September 2016			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	783,138	783,138	-
Unit trust funds			
- Quoted in Malaysia	65,452	65,452	-
Real estate investment trust	11,381	11,381	-
Malaysian Government Securities	631,143	-	631,143
Government Investment Issues	178,938	-	178,938
Corporate debt securities			
- Unquoted	1,294,379	-	1,294,379
Accrued interest	24,801	-	24,801
	<u>2,989,232</u>	<u>859,971</u>	<u>2,129,261</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	396,706	396,706	-
- Quoted outside Malaysia	6,731	6,731	-
Unit trust funds			
- Quoted in Malaysia	8,046	8,046	-
Malaysian Government Securities	69,413	-	69,413
Government Investment Issues	20,894	-	20,894
Corporate debt securities			
- Unquoted	240,093	-	240,093
Mutual funds	596,170	596,170	-
Derivatives			
- Forward foreign exchange contract	804	-	804
Accrued interest	4,070	-	4,070
	<u>1,342,927</u>	<u>1,007,653</u>	<u>335,274</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)**32. 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.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the current and previous financial periods.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 2016

Notes to the Interim Financial Statements (Continued)**33. 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 30.09.2016 RM'000	As at 31.12.2015 RM'000
Total retained earnings of the Group:		
- Realised	555,242	562,459
- Unrealised	88,835	81,486
	<u>644,077</u>	<u>643,945</u>
Consolidation adjustments	15,917	15,917
Total retained earnings as per statement of financial position	<u>659,994</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
28 November 2016

Chin Mun Yee
Joint Secretary