

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 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 and International 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 2012–2014 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 financial year ended 31 December 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 year ended 31 December 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 liabilities are determined using best estimate assumptions 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 year ended 31 December 2016, the applicable assumption changes resulted in higher actuarial liabilities of RM64.2 million (31 December 2015: higher actuarial liabilities of RM25.9 million), with a corresponding decrease in unallocated surplus for the participating business of RM62.3 million (31 December 2015: decrease in unallocated surplus of RM28.5 million) and decrease in net profit before tax of RM1.9 million (31 December 2015: increase in net profit before tax RM2.6 million).

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

7. Debt and equity securities

There were no issuances, cancellation, repurchases, resale and repayment of debt and equity securities during the current financial year ended 31 December 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.

The Board of Directors has recommended First and Final dividend of 10.5 sen per share for the financial year ended 31 December 2016, subject to the approval of the shareholders at the forthcoming Annual General Meeting.

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 year to date, other than the completion of the liquidation process of two of its subsidiaries on 6 January 2017.

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 financial year ended 31 December 2016

Notes to the Interim Financial Statements (Continued)

12. Future financial year prospects

The local economy will remain challenging as long as the Ringgit continues to remain weak against most major currencies and the policy decision uncertainty in the United States. Given the sentiment, our business, particularly the wealth business could face considerable headwinds. For the insurance business, movements in Malaysian Government Securities yield will give rise to volatility in earnings. Nonetheless, we expect continuous growth in our topline in both insurance and wealth business.

The Group will continue to focus on growing the business through enhancing our brand and improving customer engagement and experience and building our omnichannel distribution platform. The Group is also mindful of the cost of operations hence the Group will continue to introduce initiatives to improve the productivity of the various segments of business via integration and transformation of the operations.

As for product development, the Group will continue to be innovative and strive to be the “first-in-market” solution provider in Malaysia, as well as tapping into new markets within the country.

Given unforeseen market and interest rate movements, the earnings are expected to moderate in the next financial year ending 31 December 2017.

13. Profit forecast

The Group did not issue any profit forecast during the financial year ended 31 December 2016.

14. Group borrowings

The Group did not have any borrowings as at 31 December 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 year to date.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 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 12 months ended 31 December							
	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	-	-	877,750	814,177	-	-	877,750	814,177
Premiums ceded to reinsurers	-	-	(27,130)	(16,104)	-	-	(27,130)	(16,104)
Net premiums	-	-	850,620	798,073	-	-	850,620	798,073
(b) Investment income	13,264	14,836	162,752	157,627	663	1,077	176,679	173,540
(c) Net realised gains/(losses)	126	(479)	17,097	22,054	-	-	17,223	21,575
(d) Net fair value (losses)/gains	(267)	(817)	(68,733)	(92,228)	-	3	(69,000)	(93,042)
(e) Fee income	-	-	-	-	60,357	56,938	60,357	56,938
(f) Other operating income	10	(8)	1,308	1,604	145	153	1,463	1,749
Total external revenue	13,133	13,532	963,044	887,130	61,165	58,171	1,037,342	958,833
<u>Inter-segment revenue</u>								
(a) Rental income	1,114	1,084	747	473	-	-	1,861	1,557
(b) Fee income	889	807	3,280	3,343	10,035	7,765	14,204	11,915
(c) Dividend Income	-	9,000	3,753	3,642	-	-	3,753	12,642
(d) Net realised gains	-	-	402	654	-	-	402	654
Total inter-segment revenue	2,003	10,891	8,182	8,112	10,035	7,765	20,220	26,768
Total revenue by segment	15,136	24,423	971,226	895,242	71,200	65,936	1,057,562	985,601
(Loss)/profit before taxation	(1,070)	358	66,578	54,531	(3,226)	(6,996)	62,282	47,893
Segment assets	664,269	698,466	4,740,557	4,462,550	102,040	131,344	5,506,866	5,292,360
Segment liabilities	13,816	12,215	4,240,723	4,011,440	59,623	78,722	4,314,162	4,102,377

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 2016

Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 12 months ended	
	31.12.2016	31.12.2015
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	1,057,562	985,601
Elimination of inter-segment revenue	(20,220)	(26,768)
Total revenue as per statement of profit or loss	1,037,342	958,833
	As at	As at
	31.12.2016	31.12.2015
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	5,506,866	5,292,360
Elimination of inter-segment assets	(394,510)	(426,299)
Total assets as per statement of financial position	5,112,356	4,866,061
Segment liabilities		
Total liabilities for reportable segments	4,314,162	4,102,377
Elimination of inter-segment liabilities	(925)	(13,562)
Total liabilities as per statement of financial position	4,313,237	4,088,815

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 Year ended 31 December 2016 vs Financial Year ended 31 December 2015

The Group's operating revenue for the financial year ended 31 December 2016 (Year-to-Date ("YTD" December 2016), recorded an increase of 6.7% or RM70.2 million compared to the corresponding financial year ended 31 December 2015 (YTD December 2015) (2016: RM1,114.8 million, 2015: RM1,044.6 million). The Group's profit before tax increased by RM14.4 million as compared to the profit before tax in the corresponding YTD 31 December 2015 (2016: RM62.3 million, 2015: RM47.9 million).

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue declined RM1.5 million compared to the preceding year (2016: RM13.3 million, 2015: RM14.8 million) and recorded a loss before tax of RM1.4 million (2016: Loss before tax RM1.1 million, 2015: Profit before tax RM0.3 million) largely due to lower investment income from fixed income securities.

Life insurance business – Operating revenue of the life insurance business grew 7.1% or RM68.7 million (2016: RM1,040.5 million, 2015: RM971.8 million) largely attributable to higher premium income from the launch of new insurance product, Universal Life in the current year. Profit before tax was RM12.1 million higher as compared to YTD December 2015 (2016: RM66.6 million, 2015: RM54.5 million) mainly due to foreign exchange gains from USD denominated assets, medical repricing exercise undertaken during the year and higher new business gains from the launch of the aforesaid product.

Asset management services – Operating revenue was RM2.9 million higher as compared to YTD December 2015 (2016: RM61.0 million, 2015: RM58.1 million). Loss before tax reduced by RM3.8 million (2016: Loss RM3.2 million, 2015: Loss RM7.0 million) mainly due to improved mix of product sold with better margin and higher fee income earned from higher assets under management (AUM) during the year.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 2016

Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

4th Quarter 2016 vs 4th Quarter 2015

The Group's operating revenue for the quarter ended 31 December 2016 decreased by 11.7% or RM37.9 million compared to the corresponding quarter ended 31 December 2015 (2016: RM285.7 million, 2015: RM323.6 million). The Group's profit before tax was RM35.4 million for the current quarter, RM24.4 million higher as compared to the profit before tax in the corresponding quarter ended 31 December 2015 of RM11.0 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue slipped 9% or RM0.3 million as compared to the preceding year's corresponding quarter (2016: RM3.0 million, 2015: RM3.3 million) and recorded a loss before tax of RM0.8 million (2016: Loss before tax RM0.4 million, 2015: Profit before tax RM0.4 million) due to lower investment income from fixed income securities.

Life insurance business – Operating revenue of the life insurance business decreased by RM40.4 million (2016: RM266.3 million, 2015: RM306.7 million) mainly due to lower sales of single insurance product as compared to Q4 2015. Profit before tax was RM21.4 million higher in the current quarter (2016: RM35.1 million, 2015: RM13.7 million) due to favorable impact on actuarial liabilities as a result of improved Malaysian Government Securities ("MGS") yield, medical repricing exercise undertaken during the year and foreign exchange gains from USD denominated assets.

Asset management services – Operating revenue increased 18.8% or RM2.6 million compared to preceding year's corresponding quarter (2016: RM16.4 million, 2015: RM13.8 million). Loss before tax improved RM3.9 million (2016: Profit before tax RM0.7 million, 2015: Loss before tax RM3.2 million) mainly due to improved mix of product sold with better margin and IT expenses recovery during the current quarter.

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

The Group recorded higher profit before tax of RM35.4 million for the current quarter ("Q4 2016") under review as compared to the profit before tax of RM17.6 million in the preceding quarter ended 30 September 2016 ("Q3 2016").

The increase of profit before tax of RM17.8 million was contributed by the following segments:

Investment holding – This segment reported a lower loss before tax of RM0.4 million in Q4 2016 compared to loss before tax of RM0.9 million in Q3 2016. The improvement in loss before tax of RM0.5 million was attributable to improved investment gains in the current quarter.

Life insurance business – Profit before tax grew 73.8% or RM14.9 million from RM20.2 million in Q3 2016 to RM35.1 million in Q4 2016. The increase was mainly attributable to favorable impact on actuarial liabilities as a result of higher MGS yield, new business gains and foreign exchange gains from USD denominated assets.

Asset management services – Q4 2016 posted a profit before tax of RM0.7 million compared to a loss before tax of RM1.7 million in Q3 2016. The improvement in the results was largely attributable to IT expenses recovery and higher unit trust sales charge.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 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 12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
First year premium	43,657	33,519	123,846	98,494
Renewal year premium	142,816	130,070	513,550	480,370
Single premium	29,339	91,455	213,224	219,209
Total	215,812	255,044	850,620	798,073

22. Investment income

	3 months ended		Cumulative 12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,817	3,213	14,169	13,029
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	2,207	2,795	12,105	9,996
- quoted outside Malaysia	58	11	124	110
- unit trust	-	12	-	12
- mutual funds – outside Malaysia	2,776	2,835	7,780	6,497
Accretion of discounts, net of amortisation of premiums	(554)	(3)	(499)	(62)
<u>AFS financial assets</u>				
Interest/profit income	23,065	20,985	88,709	79,812
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	5,976	5,093	23,341	21,680
- unquoted in Malaysia	35	194	334	299
- unit trusts	1,147	6,598	1,147	6,598
Accretion of discounts, net of amortisation of premiums	(18)	(56)	64	372
<u>Loans and receivables</u>				
Interest/profit income	4,574	5,538	21,004	24,438
Accretion of discounts, net of amortisation of premiums	-	682	484	2,678
<u>Investment properties</u>				
Rental income	1,763	1,881	6,929	7,527
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	203	182	988	554
	<u>45,049</u>	<u>49,960</u>	<u>176,679</u>	<u>173,540</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 2016

Notes to the Interim Financial Statements (Continued)

23. Other operating (income)/expenses

	3 months ended		Cumulative 12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange (gains)/losses	(47,048)	13,323	(39,452)	(75,824)
Interest expense on agent's bond withheld	4	5	17	21
Others	365	241	716	538
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	1,055	5,471	12,879	9,405
- Deferred tax	(281)	977	(4,314)	320
	774	6,448	8,565	9,725
	(45,905)	20,017	(30,154)	(65,540)

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 year.

24. Profit before taxation

	3 months ended		Cumulative 12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	2,686	2,739	10,568	8,492
Depreciation of property and equipment	915	767	3,389	3,176
Investment income (Note 22)	(45,049)	(49,960)	(176,679)	(173,540)
Allowance of impairment loss on policy loans	150	-	147	-
(Reversal)/allowance of impairment loss on insurance receivables	(162)	162	(162)	154
Allowance of impairment on other receivables	-	278	9	278
Net foreign exchange (gains)/losses	(47,048)	13,323	(39,452)	(75,824)
Net realised gains				
- realised losses/(gains) on disposal of property and equipment	1	-	(41)	14
- realised losses/(gains) on disposal of AFS investments	(10,251)	(2,910)	(17,182)	(21,576)
- realised gains on loans and receivables	-	-	-	(13)
	(10,250)	(2,910)	(17,223)	(21,575)

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 2016

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

	3 months ended		Cumulative 12 months ended	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Profit before taxation is arrived at after charging/(crediting) (continued):				
Net fair value losses/(gains)				
- fair value losses/(gains) on Investment properties	363	(437)	363	(437)
- fair value losses/(gains) on FVTPL investments/ derivatives	52,272	(42,981)	41,630	55,627
- impairment loss on quoted equities	7,980	6,968	27,007	37,852
	60,615	(36,450)	69,000	93,042

25. Taxation

	3 months ended		Cumulative 12 months ended	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
<u>Income tax</u>				
Current financial period	9,627	5,589	17,438	16,783
Over provision in prior financial period	(1,393)	(289)	(1,004)	(2,708)
	8,234	5,300	16,434	14,075
<u>Deferred tax</u>				
Reversal of temporary differences	(902)	(1,491)	(615)	(1,568)
Over provision in prior financial period	-	-	-	(180)
	(902)	(1,491)	(615)	(1,748)
	7,332	3,809	15,819	12,327

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 financial year ended 31 December 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 12 months ended	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Profit before taxation	35,381	11,006	62,282	47,893
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	8,492	2,751	14,948	11,973
Section 110B tax credit set off	(231)	(670)	(2,515)	(2,116)
Income not subject to tax	58	123	(1,480)	(1,038)
Expenses not deductible for tax purposes	819	3,271	5,872	7,032
Changes in unrecognised deferred tax assets	(413)	(501)	(2)	240
Effect of changes in tax rate	-	(876)	-	(876)
	8,725	4,098	16,923	15,215
Over provision in prior financial period				
- Current tax	(1,393)	(289)	(1,004)	(2,708)
- Deferred tax	-	-	-	(180)
	7,332	3,809	15,819	12,327

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 12 months ended	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
Net profit attributable to owners of the Company	(RM'000)	28,100	7,196	46,445	35,542
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	13.88	3.55	22.95	17.56

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 financial year ended 31 December 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 31.12.2016 RM'000	As at 31.12.2015 RM'000	As at 31.12.2016 RM'000	As at 31.12.2015 RM'000
Actuarial liabilities	2,282,558	2,163,399	2,278,073	2,160,641
Unallocated surplus	63,402	162,694	63,402	162,694
Fair value reserve	46,840	53,087	46,840	53,087
Asset revaluation reserve	1,116	842	1,116	842
Investment-linked policyholders' account	1,197,495	1,025,290	1,197,495	1,025,290
	<u>3,591,411</u>	<u>3,405,312</u>	<u>3,586,926</u>	<u>3,402,554</u>

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

	Gross		Net	
	As at 31.12.2016 RM'000	As at 31.12.2015 RM'000	As at 31.12.2016 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	28,541	(19,680)	27,338	(19,680)
New business reserve	26,426	23,466	25,902	21,739
Discount rate and other changes	64,192	25,897	64,192	25,897
Unallocated surplus	(99,292)	(61,160)	(99,292)	(61,160)
Fair value reserve, net of tax	(6,247)	27	(6,247)	27
Asset revaluation reserve				
- Revaluation adjustment	(50)	(391)	(50)	(391)
- Reversal on revaluation	324	592	324	592
	274	201	274	201
Investment-linked policyholders' account	172,205	164,487	172,205	164,487
At 31 December	<u>3,591,411</u>	<u>3,405,312</u>	<u>3,586,926</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 31.12.2016 RM'000	As at 31.12.2015 RM'000
Investment holding	8,819	14,947
Life insurance business:-		
Shareholders' fund	9,020	9,135
Non Investment-linked business	77,390	50,571
Investment-linked business	4,671	4,872
Asset management services	38,299	44,048
	<u>138,199</u>	<u>123,573</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 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 year between the Group and their related parties are set out as below:

	31.12.2016	Cumulative 12 months ended 31.12.2015
Expenses:		
Intermediate holding company		
Reimbursement of personnel expenses	5,503	4,996
Reimbursement of software maintenance expenses	<u>3,668</u>	<u>3,858</u>
Subsidiaries of ultimate holding company		
Outsourced information technology service expenses	4,244	6,021
Software development expenses	<u>5,740</u>	<u>6,383</u>

30. Capital and other commitments

	As at 31.12.2016 RM'000	As at 31.12.2015 RM'000
Other commitments		
Exclusive bancassurance agreement		
-Authorised but not provided for	<u>19,500</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 financial year ended 31 December 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
31 December 2016					
Financial assets					
AFS financial assets	2,884,579	-	-	-	2,884,579
Financial assets at FVTPL	-	1,347,826	-	-	1,347,826
Loans and receivables	-	-	452,045	-	452,045
Insurance receivables	-	-	28,781	-	28,781
Cash and cash equivalents	-	-	138,199	-	138,199
	<u>2,884,579</u>	<u>1,347,826</u>	<u>619,025</u>	<u>-</u>	<u>4,851,430</u>
Financial liabilities					
Financial liabilities at FVTPL	-	549	-	-	549
Insurance payables	-	-	-	479,294	479,294
Other payables	-	-	-	154,972	154,972
	<u>-</u>	<u>549</u>	<u>-</u>	<u>634,266</u>	<u>634,815</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 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 financial year ended 31 December 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 31.12.2016	As at 31.12.2015	As at 31.12.2016	As at 31.12.2015
	RM'000	RM'000	RM'000	RM'000
Carrying amount	20,929	20,875	88,071	88,125
Fair value as stated in valuation report*	20,929	20,875	88,071	88,125

* Based on the valuation conducted by an independent qualified valuer on 4 November 2016.

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

	Valuation technique	Significant unobservable inputs	Range
2016			
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% RM4.40 – RM5.03 psf RM4.60 psf
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 year	(654)	(643)	-	-
Additions during the year	89	1,005	309	3,396
Fair value gain/(loss)	619	426	(363)	437
At 31 December	20,929	20,875	88,071	88,125

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 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 financial year ended 31 December 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
31 December 2016			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	762,736	762,736	-
Unit trust funds			
- Quoted in Malaysia	64,630	64,630	-
Real estate investment trusts	11,116	11,116	-
Malaysian Government Securities	603,306	-	603,306
Government Investment Issues	207,439	-	207,439
Corporate debt securities			
- Unquoted	1,213,472	-	1,213,472
Accrued interest	19,364	-	19,364
	<u>2,882,063</u>	<u>838,482</u>	<u>2,043,581</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	394,515	394,515	-
- Quoted outside Malaysia	5,209	5,209	-
Unit trust funds			
- Quoted in Malaysia	9,276	9,276	-
Real estate investment trusts	7,623	7,623	-
Malaysian Government Securities	80,536	-	80,536
Government Investment Issues	24,434	-	24,434
Corporate debt securities			
- Unquoted	216,041	-	216,041
Mutual funds	607,312	607,312	-
Accrued interest	2,880	-	2,880
	<u>1,347,826</u>	<u>1,023,935</u>	<u>323,891</u>
Financial liabilities at FVTPL			
Forward foreign exchange contract	549	-	549

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 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			
- Quoted in Malaysia	104,245	104,245	-
Real estate investment trusts	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	-
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 financial year ended 31 December 2016

Notes to the Interim Financial Statements (Continued)

33. Subsequent Event

The Companies Act 2016 (“New Act”) was enacted to replace the Companies Act 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. The Minister of Domestic Trade, Co-operatives and Consumerism and Suruhanjaya Syarikat Malaysia (“SSM”) had announced 31 January 2017 as the effective date of the New Act, except section 241 and Division 8 of Part III.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Group and of the Company upon the commencement of the New Act on 31 January 2017 are:

- (a) Removal of the authorised share capital;
- (b) Shares of the Company will cease to have par or nominal value; and
- (c) The Company’s share premium and capital redemption reserves will become part of the share capital.

The adoption of the New Act is not expected to have any financial impact on the Group and of the Company for the current financial year as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual report and financial statements of the Group and of the Company for the financial year ending 31 December 2017.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial year ended 31 December 2016

Notes to the Interim Financial Statements (Continued)**34. 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 31.12.2016 RM'000	As at 31.12.2015 RM'000
Total retained earnings of the Group:		
- Realised	594,814	562,459
- Unrealised	77,363	81,486
	<u>672,177</u>	<u>643,945</u>
Consolidation adjustments	15,917	15,917
Total retained earnings as per statement of financial position	<u>688,094</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
27 February 2017

Chin Mun Yee
Joint Secretary