

MANULIFE HOLDINGS BERHAD

Interim financial statements for the financial period ended 31 March 2017

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 2016, 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 2016.

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 2016, except for the adoption of the following amendments to MFRS:

<u>Description</u>	<u>Effective Date</u>
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Amendment to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2017

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 2016.

4. Seasonal/cyclical factors

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

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5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 31 March 2017.

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 period ended 31 March 2017, the applicable assumption changes resulted in higher actuarial liabilities of RM12.7 million (31 March 2016: higher actuarial liabilities of RM48.6 million), with a corresponding decrease in unallocated surplus for the participating business of RM8.6 million (31 March 2016: decrease in unallocated surplus of RM35.5 million) and decrease in net profit before tax of RM4.1 million (31 March 2016: decrease in net profit before tax RM13.1 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 2017.

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 2017.

8. Dividends

The Board of Directors recommended the payment of First and Final dividend of 10.5 sen per share, amounting to RM21,248,850 for the financial year ended 31 December 2016, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

No dividend has been declared in respect of the current financial period ended 31 March 2017.

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 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.

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12. Current financial year prospects

Economic growth is expected to accelerate in the current year due to improving global economic prospects and a stabilization of both crude oil prices and the Ringgit. As a result, The Group expects both insurance and wealth businesses to continue to record growth in our top-line.

In addition, we believe there is a secular growth trend in Malaysia supported by the under-penetration of life insurance coupled with a growing affluent population, which creates a need for investment and retirement solutions. As this is expected to result in overall industry growth we target to out-grow the market, by continuing to execute the following five strategic themes:

- Creating an unsurpassed customer experience;
- Providing holistic solutions, including health, protection, wealth, and retirement;
- Building our premium advisor base;
- Growing our penetration rates within the bank segment by leveraging our exclusive partnership with Alliance Bank; and
- Build-out digital customer engagement capabilities

Nonetheless, any sharp fluctuations occurring in local interest rates and equity markets due to changes in global economic conditions may cause profitability to become volatile in the short-term.

13. Profit forecast

The Group did not issue any profit forecast during the financial period ended 31 March 2017.

14. Group borrowings

The Group did not have any borrowings as at 31 March 2017.

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 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 3 months ended 31 March							
	Investment holding		Life insurance business		Asset management services		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	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	-	-	190,518	214,783	-	-	190,518	214,783
Premiums ceded to reinsurers	-	-	(8,269)	(5,068)	-	-	(8,269)	(5,068)
Net premiums	-	-	182,249	209,715	-	-	182,249	209,715
(b) Investment income	3,081	3,130	42,495	37,938	151	258	45,727	41,326
(c) Net realised gains	232	15	7,141	7,137	(1)	-	7,372	7,152
(d) Net fair value gains/(losses)	(13)	(108)	67,481	13,492	(2)	-	67,466	13,384
(e) Fee income	-	-	-	-	19,346	14,289	19,346	14,289
(f) Other operating income	-	8	877	300	15	4	892	312
Total external revenue	3,300	3,045	300,243	268,582	19,509	14,551	323,052	286,178
<u>Inter-segment revenue</u>								
(a) Rental income	402	275	194	165	-	-	596	440
(b) Fee income	113	118	984	834	2,504	2,390	3,601	3,342
(c) Dividend Income	-	-	966	938	-	-	966	938
(d) Net realised gains	-	-	25	121	-	-	25	121
Total inter-segment revenue	515	393	2,169	2,058	2,504	2,390	5,188	4,841
Total revenue by segment	3,815	3,438	302,412	270,640	22,013	16,941	328,240	291,019
(Losses)/profit before taxation	(401)	(650)	8,582	3,010	(798)	(788)	7,383	1,572
Segment assets	698,035	764,137	4,875,506	4,590,757	117,852	127,811	5,691,393	5,482,705
Segment liabilities	9,801	11,697	4,363,417	4,137,406	76,237	82,793	4,449,455	4,231,896

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Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 3 months ended	
	31.03.2017	31.03.2016
	RM'000	RM'000
Total revenue		
Total revenue for reportable segments	328,240	291,019
Elimination of inter-segment revenue	(5,188)	(4,841)
Total revenue as per statement of profit or loss	323,052	286,178
	As at	As at
	31.03.2017	31.03.2016
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	5,691,393	5,482,705
Elimination of inter-segment assets	(432,010)	(481,104)
Total assets as per statement of financial position	5,259,383	5,001,601
Segment liabilities		
Total liabilities for reportable segments	4,449,455	4,231,896
Elimination of inter-segment liabilities	(1,514)	(9,869)
Total liabilities as per statement of financial position	4,447,941	4,222,027

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 2017 vs 1st Quarter 2016

The Group's operating revenue for the quarter ended 31 March 2017 decreased by 5.5% or RM14.8 million compared to the corresponding quarter ended 31 March 2016 (2017: RM255.6 million, 2016: RM270.4 million). The Group's profit before tax was RM7.4 million for the current quarter ("Q1 2017"), RM5.8 million higher as compared to the profit before tax in the corresponding quarter ended 31 March 2016 ("Q1 2016") of RM1.6 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue remained relatively stable at RM 3.1 million similar to the preceding year's corresponding quarter but a lower loss before tax by RM0.3 million (2017: Loss before tax RM0.4 million, 2016: Loss before tax RM0.7 million), this is due to higher investment gain from disposal of equities.

Life insurance business – Operating revenue of the life insurance business decreased by RM19.7 million (2017: RM233.0 million, 2016: RM252.7 million) mainly due to lower premium of investment-linked fund. Profit before tax was RM5.6 million higher in the current quarter (2017: RM8.6 million, 2016: RM3.0 million) mainly due to higher new business gains and favourable impact from medical repricing exercise undertaken last year.

Asset management services – Operating revenue increased 34.5% or RM5.0 million compared to preceding year's corresponding quarter (2017: RM19.5 million, 2016: RM14.5 million) mainly attributable to higher initial service fee from higher gross sales and higher management fee earned from high Asset Under Management ("AUM"). However, loss before tax remained at RM0.8 million for both Q1 2017 and Q1 2016 mainly due higher management expenses in the current quarter.

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Notes to the Interim Financial Statements (Continued)

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

The Group recorded lower profit before tax of RM7.4 million for the current quarter under review as compared to the profit before tax of RM35.4 million in the preceding quarter ended 31 December 2016 ("Q4 2016").

The lower profit before tax of RM28.0 million was contributed by the following segments:

Investment holding – This segment reported loss before tax of RM0.4 million in both Q1 2017 and Q4 2016. Improved investment return in Q1 2017 was very much offset by high management expenses.

Life insurance business – Profit before tax reduced by 75.5% or RM26.5 million as compared to preceding quarter (Q1 2017: RM8.6 million, Q4 2016: RM35.1 million). The decrement was mainly due to adverse movement of MGS yield which resulted in higher reserving of actuarial liabilities in Q1 2017 and one-off adjustment on foreign exchange gains from USD denominated asset in Q4 2016.

Asset management services – Q1 2017 recorded a loss before tax of RM0.8 million compared to a profit before tax of RM0.7 million in Q4 2016. The decrement was due to higher management expenses 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. 03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
First year premium	26,152	24,953	26,152	24,953
Renewal year premium	125,743	107,701	125,743	107,701
Single premium	30,354	77,061	30,354	77,061
Total	182,249	209,715	182,249	209,715

22. Investment income

	3 months ended		Cumulative 3 months ended	
	31. 03.2017	31.03.2016	31. 03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,596	3,459	3,596	3,459
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	3,705	2,569	3,705	2,569
- quoted outside Malaysia	6	14	6	14
- real estate investment trusts				
- quoted in Malaysia	58	-	58	-
- mutual funds				
- outside Malaysia	1,739	1,694	1,739	1,694
Accretion of discounts/ (amortisation of premiums)	506	(56)	506	(56)
<u>AFS financial assets</u>				
Interest/profit income	22,654	21,240	22,654	21,240
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	7,047	4,666	7,047	4,666
- real estate investment trusts				
- quoted in Malaysia	41	25	41	25
(Amortisation of premiums)/ accretion of discounts	(131)	27	(131)	27
<u>Loans and receivables</u>				
Interest/profit income	4,599	5,487	4,599	5,487
Accretion of discounts, net of amortisation of premiums	-	484	-	484
<u>Investment properties</u>				
Rental income	1,732	1,481	1,732	1,481
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	175	236	175	236
	45,727	41,326	45,727	41,326

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Notes to the Interim Financial Statements (Continued)

23. Other operating expenses

	3 months ended		Cumulative 3 months ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange losses	4,227	38,685	4,227	38,685
Interest expense on agent's bond withheld	4	4	4	4
Others	512	77	512	77
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	3,929	6,865	3,929	6,865
- Deferred tax	4,706	(5,296)	4,706	(5,296)
	8,635	1,569	8,635	1,569
	13,378	40,335	13,378	40,335

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% (2016: 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	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	2,402	3,080	2,402	3,080
Depreciation of property and equipment	925	814	925	814
Investment income (Note 22)	(45,727)	(41,326)	(45,727)	(41,326)
Reversal of impairment loss on policy loans	-	(7)	-	(7)
Reversal of impairment loss on insurance receivables	(1)	-	(1)	-
Net foreign exchange losses	4,227	38,685	4,227	38,685
Net realised gains				
- realised losses on disposal of property and equipment	1	-	1	-
- realised gains on disposal of AFS investments	(7,373)	(7,152)	(7,373)	(7,152)
	(7,372)	(7,152)	(7,372)	(7,152)

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

	3 months ended		Cumulative 3 months ended	
	31.03.2017 RM'000	31.03.2016 RM'000	31.03.2017 RM'000	31.03.2016 RM'000
Profit before taxation is arrived at after charging/(crediting) (continued):				
Net fair value gains				
- fair value gains on FVTPL investments/ derivatives	(68,707)	(19,275)	(68,707)	(19,275)
- impairment loss on quoted equities	1,241	5,891	1,241	5,891
	(67,466)	(13,384)	(67,466)	(13,384)

25. Taxation

	3 months ended		Cumulative 3 months ended	
	31.03.2017 RM'000	31.03.2016 RM'000	31.03.2017 RM'000	31.03.2016 RM'000
<u>Income tax</u>				
Current financial period	2,732	1,485	2,732	1,485
Over provision in prior financial period	-	-	-	-
	2,732	1,485	2,732	1,485
<u>Deferred tax</u>				
Origination/(reversal) of temporary differences	23	(31)	23	(31)
Over provision in prior financial period	-	-	-	-
	23	(31)	23	(31)
	2,755	1,454	2,755	1,454

The income tax for the Group is calculated based on the tax rate of 24% (2016: 24%) 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	
	31.03.2017 RM'000	31.03.2016 RM'000	31.03.2017 RM'000	31.03.2016 RM'000
Profit before taxation	7,383	1,572	7,383	1,572
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	1,772	377	1,772	377
Section 110B tax credit set off	(430)	(277)	(430)	(277)
Income not subject to tax	(602)	(511)	(602)	(511)
Expenses not deductible for tax purposes	1,986	2,010	1,986	2,010
Changes in unrecognised deferred tax assets	29	(145)	29	(145)
	<u>2,755</u>	<u>1,454</u>	<u>2,755</u>	<u>1,454</u>

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	
		31.03.2017	31.03.2016	31.03.2017	31.03.2016
Net profit attributable to owners of the Company	(RM'000)	4,618	113	4,618	113
Weighted average number of ordinary shares in issue	('000)	<u>202,370</u>	<u>202,370</u>	<u>202,370</u>	<u>202,370</u>
Basic and diluted earnings per share	(Sen)	<u>2.28</u>	<u>0.06</u>	<u>2.28</u>	<u>0.06</u>

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.

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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 31.03.2017 RM'000	As at 31.12.2016 RM'000	As at 31.03.2017 RM'000	As at 31.12.2016 RM'000
Actuarial liabilities	2,309,792	2,282,558	2,305,085	2,278,073
Unallocated surplus	55,938	63,402	55,938	63,402
Fair value reserve	97,583	46,840	97,583	46,840
Asset revaluation reserve	1,116	1,116	1,116	1,116
Investment-linked policyholders' account	1,251,850	1,197,495	1,251,850	1,197,495
	<u>3,716,279</u>	<u>3,591,411</u>	<u>3,711,572</u>	<u>3,586,926</u>

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

	Gross		Net	
	As at 31.03.2017 RM'000	As at 31.12.2016 RM'000	As at 31.03.2017 RM'000	As at 31.12.2016 RM'000
At 1 January	3,591,411	3,405,312	3,586,926	3,402,554
Inforce reserve movement	11,823	28,541	11,612	27,338
New business reserve	2,669	26,426	2,658	25,902
Discount rate and other changes	12,742	64,192	12,742	64,192
Unallocated surplus	(7,464)	(99,292)	(7,464)	(99,292)
Fair value reserve, net of tax	50,743	(6,247)	50,743	(6,247)
Asset revaluation reserve				
- Revaluation adjustment	-	(50)	-	(50)
- Reversal on revaluation	-	324	-	324
	-	274	-	274
Investment-linked policyholders' account	54,355	172,205	54,355	172,205
At 31 March/31 December	<u>3,716,279</u>	<u>3,591,411</u>	<u>3,711,572</u>	<u>3,586,926</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 31.03.2017 RM'000	As at 31.12.2016 RM'000
Investment holding	8,696	8,819
Life insurance business:-		
Shareholders' fund	8,892	9,020
Non Investment-linked business	55,779	77,390
Investment-linked business	1,558	4,671
Asset management services	49,083	38,299
	<u>124,008</u>	<u>138,199</u>

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Interim financial statements for the financial period ended 31 March 2017

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:

	31.03.2017	Cumulative 3 months ended 31.03.2016
	RM'000	RM'000
Expenses:		
Intermediate holding company		
Reimbursement of personnel expenses	1,885	1,265
Reimbursement of software maintenance expenses	363	1,277
	<hr/>	<hr/>
Subsidiaries of ultimate holding company		
Outsourced information technology service expenses	216	952
Software development expenses	61	1,465
	<hr/>	<hr/>

30. Capital and other commitments

	As at 31.03.2017	As at 31.12.2016
	RM'000	RM'000
Other commitments		
Exclusive bancassurance agreement		
-Authorised but not provided for	18,750	19,500
	<hr/>	<hr/>

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.

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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 March 2017					
Financial assets					
AFS financial assets	2,981,586	-	-	-	2,981,586
Financial assets at FVTPL	-	1,384,221	-	-	1,384,221
Loans and receivables	-	-	488,087	-	488,087
Insurance receivables	-	-	23,274	-	23,274
Cash and cash equivalents	-	-	124,008	-	124,008
	<u>2,981,586</u>	<u>1,384,221</u>	<u>635,369</u>	<u>-</u>	<u>5,001,176</u>
Financial liabilities					
Insurance payables	-	-	-	489,631	489,631
Other payables	-	-	-	144,846	144,846
	<u>-</u>	<u>-</u>	<u>-</u>	<u>634,477</u>	<u>634,477</u>

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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 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
	2,884,579	1,347,826	619,025	-	4,851,430
Financial liabilities					
Financial liabilities at FVTPL	-	549	-	-	549
Insurance payables	-	-	-	479,294	479,294
Other payables	-	-	-	154,972	154,972
	-	549	-	634,266	634,815

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.

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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 31.03.2017 RM'000	As at 31.12.2016 RM'000	As at 31.03.2017 RM'000	As at 31.12.2016 RM'000
Carrying amount	20,760	20,929	88,071	88,071
Fair value as stated in valuation report*	20,929	20,929	88,071	88,071

* 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

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	20,929	20,875	88,071	88,125
Depreciation charge for the period/year	(169)	(654)	-	-
Additions during the period/year	-	89	-	309
Fair value gain/(loss)	-	619	-	(363)
At 31 March/31 December	20,760	20,929	88,071	88,071

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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 and investments in real estate investment trusts 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 and unit trust funds 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.

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Interim financial statements for the financial period ended 31 March 2017

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 March 2017			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	884,006	884,006	-
Real estate investment trusts	6,037	6,037	-
Unit trust funds			
- Quoted in Malaysia	65,828	65,828	-
Malaysian Government Securities	547,598	-	547,598
Government Investment Issues	206,395	-	206,395
Corporate debt securities			
- Unquoted	1,245,892	-	1,245,892
Accrued interest	23,314	-	23,314
	<u>2,979,070</u>	<u>955,871</u>	<u>2,023,199</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	481,086	481,086	-
- Quoted outside Malaysia	8,606	8,606	-
Real estate investment trusts	4,512	4,512	-
Unit trust funds			
- Quoted in Malaysia	14,341	14,341	-
Malaysian Government Securities	40,857	-	40,857
Government Investment Issues	24,474	-	24,474
Corporate debt securities			
- Unquoted	201,130	-	201,130
Mutual funds	605,131	605,131	-
Forward foreign exchange contract	887	-	887
Accrued interest	3,197	-	3,197
	<u>1,384,221</u>	<u>1,113,676</u>	<u>270,545</u>

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Interim financial statements for the financial period ended 31 March 2017

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 2016			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	762,736	762,736	-
Real estate investment trusts	11,116	11,116	-
Unit trust funds			
- Quoted in Malaysia	64,630	64,630	-
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	-
Real estate investment trusts	7,623	7,623	-
Unit trust funds			
- Quoted in Malaysia	9,276	9,276	-
Malaysian Government Securities	77,589	-	77,589
Government Investment Issues	27,381	-	27,381
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

Unquoted equity securities of RM 2,516,566 (31 December 2016: 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.

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Interim financial statements for the financial period ended 31 March 2017

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 31.03.2017 RM'000	As at 31.12.2016 RM'000
Total retained earnings of the Group:		
- Realised	595,579	594,814
- Unrealised	81,216	77,363
	<u>676,795</u>	<u>672,177</u>
Consolidation adjustments	15,917	15,917
Total retained earnings as per statement of financial position	<u>692,712</u>	<u>688,094</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
29 May 2017

Chin Mun Yee
Joint Secretary