

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial period ended 30 September 2017

Notes to the Interim Financial Statements

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, International Accounting Standard ("IAS") 34: 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 Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

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/improvements 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 and IC interpretation 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 life insurance business and asset management services.

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 30 September 2017.

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Notes to the Interim Financial Statements (Continued)

6. Change in estimates

The Group's insurance subsidiary, Manulife Insurance Berhad values 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 30 September 2017, the applicable assumption changes resulted in higher actuarial liabilities of RM36.6 million (30 September 2016: higher actuarial liabilities of RM124.9 million), with a corresponding decrease in unallocated surplus for the participating business of RM29.4 million (30 September 2016: decrease in unallocated surplus of RM104.3 million) and decrease in net profit before tax of RM7.2 million (30 September 2016: decrease in net profit before tax RM20.6 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 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 30 September 2017.

8. Dividends

A First and Final dividend of 10.5 sen per share, amounting to RM21,248,850 for the financial year ended 31 December 2016, was approved at the Annual General Meeting held on 2 June 2017 and the dividend was paid on 19 July 2017.

No dividend has been declared in respect of the current financial period ended 30 September 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

Manulife Holdings Berhad had on 20 July 2017, incorporated a wholly-owned subsidiary, Manulife Insurance Labuan Limited in Labuan, Federal Territory of Malaysia under the Labuan Companies Act, 1990 with a fully paid up capital of USD1.00. Subsequently on 30 August 2017, the Company further subscribed for 2,999,999 new ordinary shares at a total consideration of USD2,999,999. The principal activity of Manulife Insurance Labuan Limited is to carry on Labuan life insurance activities. The incorporation does not have any material effect on the earnings and net assets of the Company for the financial year ending 31 December 2017.

Two wholly-owned subsidiaries, Manulife Asset Management (Malaysia) Sdn Bhd and Britama Credit Sdn Bhd were dissolved on 6 January 2017. The dissolution does not have any significant operational and financial impact to the Group.

Other than as disclosed, there were no significant changes in the composition of the Group for the current financial period to date.

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Notes to the Interim Financial Statements (Continued)

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.

12. Current financial year prospects

The Group expects our full-year 2017 financial performance to be mixed. Within our life insurance business, we are facing challenges in our bancassurance distribution channel resulting in a year on year contraction in volumes. As a result, we expect little to no growth in total 2017 new business premiums relative to prior year. Turning to our wealth and asset management business, the Group anticipates the momentum seen throughout the year to continue, resulting in record growth in 2017 total gross flows relative to prior period. We anticipate this to result in a significant reduction of losses within our wealth and asset management business for 2017. As a result of the aforementioned factors as well as unfavourable movement in interest rates to date and the absence of non-recurring items that positively impacted 2016, we anticipate consolidated group earnings to come under pressure in 2017 relative to the prior year.

Taking a mid-term view, we continue to 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 30 September 2017.

14. Group borrowings

The Group did not have any borrowings as at 30 September 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 9 months ended 30 September							
	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	-	-	620,969	653,409	-	-	620,969	653,409
Premiums ceded to reinsurers	-	-	(27,672)	(18,601)	-	-	(27,672)	(18,601)
Net premiums	-	-	593,297	634,808	-	-	593,297	634,808
(b) Investment income	9,058	10,290	127,768	120,768	482	572	137,308	131,630
(c) Net realised gains/(losses)	1,149	(34)	28,267	7,007	-	-	29,416	6,973
(d) Net fair value (losses)/gains	(102)	(312)	119,533	(8,068)	3	(5)	119,434	(8,385)
(e) Fee income	-	-	-	-	69,920	44,073	69,920	44,073
(f) Other operating income	1	52	1,758	897	11	24	1,770	973
Total external revenue	10,106	9,996	870,623	755,412	70,416	44,664	951,145	810,072
<u>Inter-segment revenue</u>								
(a) Rental income	1,123	835	588	553	-	-	1,711	1,388
(b) Fee income	476	619	3,549	2,468	8,146	7,609	12,171	10,696
(c) Dividend Income	-	-	2,612	3,001	-	-	2,612	3,001
(d) Net realised (losses)/gains	-	-	(27)	403	-	-	(27)	403
Total inter-segment revenue	1,599	1,454	6,722	6,425	8,146	7,609	16,467	15,488
Total revenue by segment	11,705	11,450	877,345	761,837	78,562	52,273	967,612	825,560
(Losses)/profit before taxation	(1,273)	(673)	32,706	31,513	(834)	(3,939)	30,599	26,901
Segment assets	625,577	636,584	5,065,406	4,772,967	126,689	131,290	5,817,672	5,540,841
Segment liabilities	10,373	13,824	4,517,632	4,289,639	85,179	89,482	4,613,184	4,392,945

Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 9 months ended	
	30.09.2017	30.09.2016
	RM'000	RM'000
<u>Total revenue</u>		
Total revenue for reportable segments	967,612	825,560
Elimination of inter-segment revenue	(16,467)	(15,488)
Total revenue as per statement of profit or loss	951,145	810,072
	As at	As at
	30.09.2017	30.09.2016
	RM'000	RM'000
<u>Segment assets</u>		
Total assets for reportable segments	5,817,672	5,540,841
Elimination of inter-segment assets	(397,661)	(338,840)
Total assets as per statement of financial position	5,420,011	5,202,001
<u>Segment liabilities</u>		
Total liabilities for reportable segments	4,613,184	4,392,945
Elimination of inter-segment liabilities	(2,893)	22,367
Total liabilities as per statement of financial position	4,610,291	4,415,312

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.

Business Segment	3 months ended			Cumulative 9 months ended		
	30.9.2017	30.9.2016	Increase/ (Decrease)	30.9.2017	30.9.2016	Increase/ (Decrease)
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Operating Revenue</u>						
Investment holding	2,543	3,301	(758)	9,058	10,290	(1,232)
Life insurance business	260,000	254,090	5,910	748,737	774,177	(25,440)
Asset management services	27,671	15,604	12,067	70,402	44,645	25,757
Total	290,214	272,995	17,219	828,197	829,112	(915)
<u>Profit/(loss) before taxation</u>						
Investment holding	(393)	(802)	409	(1,273)	(673)	(600)
Life insurance business	11,047	20,208	(9,161)	32,706	31,513	1,193
Asset management services	(251)	(1,757)	1,506	(834)	(3,939)	3,105
Total	10,403	17,649	(7,246)	30,599	26,901	3,698

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Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

Financial Period ended 30 September 2017 vs Financial Period ended 30 September 2016

The Group's operating revenue for the financial period ended 30 September 2017 (Year-To-Date ("YTD") September 2017), recorded a decrease of RM0.9 million or 0.1% compared to the corresponding financial period ended 30 September 2016 (2017: RM828.2 million, 2016: RM829.1 million). However, the Group's profit before tax was higher by RM3.7 million as compared to the profit before tax in the corresponding YTD September 2016 (2017: RM30.6 million, 2016: RM26.9 million).

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue was RM1.2 million lower as compared to YTD September 2016 and recorded higher loss before tax of RM0.6 million due lower investment income from fixed income securities.

Life insurance business – Operating revenue of life insurance business decreased by RM25.4 million mainly due to lower single premium recorded from investment-linked fund. Profit before tax was, however, RM1.2 million higher compared to YTD September 2016 mainly due to higher new business gains, actuarial valuation basis change impact and higher Malaysian Government Securities ("MGS") yield which resulted in lower reserving of actuarial liabilities.

Asset management services – Operating revenue increased RM25.8 million or 57.7% compared to YTD September 2016. Loss before tax reduced by RM3.1 million mainly attributable to higher fee income from higher unit trust sales and higher management fee earned from higher Asset Under Management ("AUM").

3rd Quarter 2017 vs 3rd Quarter 2016

The Group's operating revenue for the quarter ended 30 September 2017 increased by RM17.2 million or 6.3% compared to the corresponding quarter ended 30 September 2016 (2017: RM290.2 million, 2016: RM273.0 million). The Group's profit before tax was RM10.4 million for the current quarter, RM7.2 million lower as compared to the profit before tax in the corresponding quarter ended 30 September 2016 of RM17.6 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue decreased by RM0.8 million or 23.0% as compared to the preceding year's corresponding quarter due to lower investment income and loss before tax slightly improved by RM0.4 million attributable to higher disposal gains from equities investment.

Life insurance business – Operating revenue of life insurance business increased by RM5.9 million mainly due to higher premium income from universal life product as compared to Q3 2016. Profit before tax was RM9.2 million lower in the current quarter due to worsened claims experience and higher distribution channel expenses incurred for business expansion initiatives.

Asset management services – Operating revenue increased RM12.1 million or 77.3% compared to preceding year's corresponding quarter. Loss before tax improved RM1.5 million mainly due to higher unit trust sales and higher management fee earned from higher AUM.

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Notes to the Interim Financial Statements (Continued)**20. Commentary on the quarterly results compared to the results of preceding quarter**

Business Segment	3 months ended		
	30.9.2017	30.6.2017	Increase/(Decrease)
	RM'000	RM'000	RM'000
<u>Operating Revenue</u>			
Investment holding	2,543	3,434	(891)
Life insurance business	260,000	255,724	4,276
Asset management services	27,671	23,234	4,437
Total	290,214	282,392	7,822
<u>Profit/(loss) before taxation</u>			
Investment holding	(393)	(479)	86
Life insurance business	11,047	13,077	(2,030)
Asset management services	(251)	215	(466)
Total	10,403	12,813	(2,410)

The Group's operating revenue for the current quarter under review ("Q3 2017") increased by RM7.8 mil as compared to preceding quarter ended 30 June 2017 ("Q2 2017"). However, the Group recorded a lower profit before tax of RM10.4 million in Q3 2017 as compared to the profit before tax of RM12.8 million in Q2 2017.

The lower profit before tax of RM2.4 million was contributed by the following segments:

Investment holding – Operating revenue decreased by RM0.9 million as compared to preceding quarter due to lower investment income from fixed income securities. However, loss before tax remains relatively stable at RM0.4 mil attributable to the lower management expenses in the current quarter.

Life insurance business – Operating revenue of life insurance business increased by RM4.3 million mainly due to higher premium income collected and investment income in Q3 2017 as compared to Q2 2017. Profit before tax decreased by RM2.0 million or 15.5% as compared to preceding quarter. This was mainly arising from the worsened claims experience in current quarter and higher distribution channel expenses incurred for business expansion initiatives.

Asset management services – Operating revenue increased by RM4.4 million as compared to preceding quarter due to higher unit trust sales and higher management fee earned from higher AUM. However, Q3 2017 recorded a loss of RM0.3 million compared to a profit of RM0.2 million in Q2 2017 mainly due to higher management expenses in current quarter.

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	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
First year premium	31,282	25,475	88,255	80,189
Renewal year premium	142,638	137,313	408,992	370,734
Single premium	31,995	42,044	96,050	183,885
Total	205,915	204,832	593,297	634,808

22. Investment income

	3 months ended		Cumulative 9 months ended	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,582	3,491	10,434	10,352
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	4,139	3,566	11,095	9,826
- quoted outside Malaysia	127	26	180	66
- real estate investment trusts				
- quoted in Malaysia	88	72	231	72
- mutual funds				
- outside Malaysia	1,453	1,724	4,642	5,004
Net (amortisation of premiums)/ accretion of discounts	(81)	13	361	55
<u>AFS financial assets</u>				
Interest/profit income	24,274	22,710	70,123	65,644
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	6,757	6,327	20,375	17,191
- unquoted in Malaysia	282	299	282	299
- real estate investment trusts				
- quoted in Malaysia	91	127	221	174
Net (amortisation of premiums)/ accretion of discounts	(452)	20	(827)	82
<u>Loans and receivables</u>				
Interest/profit income	4,668	5,025	14,334	16,430
Accretion of discounts, net of amortisation of premiums	-	-	-	484
<u>Investment property</u>				
Rental income	1,400	1,852	5,315	5,166
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	190	279	542	785
	<u>46,518</u>	<u>45,531</u>	<u>137,308</u>	<u>131,630</u>

Notes to the Interim Financial Statements (Continued)

23. Other operating expenses/(income)

	3 months ended		Cumulative 9 months ended	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange losses/(gain)	8,587	(17,206)	29,632	7,596
Interest expense on agent's bond withheld	5	4	13	13
Others	1,720	107	4,819	351
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	4,966	3,009	13,394	11,824
- Deferred tax	(1,246)	1,363	3,920	(4,033)
	3,720	4,372	17,314	7,791
	14,032	(12,723)	51,778	15,751

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

Profit before taxation is arrived at after charging/(crediting):

	3 months ended		Cumulative 9 months ended	
	30.09.2017	30.09.2016	30.09.2017	30.09.2016
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	2,221	2,089	6,878	7,882
Depreciation of property and equipment	978	859	2,832	2,474
Investment income (Note 22)	(46,518)	(45,531)	(137,308)	(131,630)
Reversal of impairment loss on insurance receivables	-	-	(1)	(162)
Allowance of impairment loss on other receivables	-	-	3	9
Allowance of impairment loss on loans receivable	151	(12)	151	159
Net foreign exchange losses/(gain)	8,587	(17,206)	29,632	7,596
Net realised (gains)/losses:				
- realised (gains)/loss on disposal of property and equipment	-	(42)	1	(42)
- realised gains on disposal of AFS investments	(15,053)	(42)	(29,417)	(6,931)
	(15,053)	(84)	(29,416)	(6,973)

Notes to the Interim Financial Statements (Continued)

24. Profit before taxation (continued)

Profit before taxation is arrived at after charging/(crediting) (continued):

	3 months ended		Cumulative 9 months ended	
	30.09.2017 RM'000	30.09.2016 RM'000	30.09.2017 RM'000	30.09.2016 RM'000
Net fair value (gains)/losses:				
- fair value gains on FVTPL investments/ derivatives	(13,095)	(5,663)	(126,176)	(10,642)
- impairment loss on quoted equities	2,500	5,630	6,742	19,027
	(10,595)	(33)	(119,434)	8,385

25. Taxation

	3 months ended		Cumulative 9 months ended	
	30.09.2017 RM'000	30.09.2016 RM'000	30.09.2017 RM'000	30.09.2016 RM'000
<u>Income tax</u>				
Current financial period	3,219	4,180	9,502	7,811
(Over)/under provision in prior financial period	(134)	388	(134)	389
	3,085	4,568	9,368	8,200
<u>Deferred tax</u>				
Reversal of temporary differences	(145)	401	(167)	287
	(145)	401	(167)	287
	2,940	4,969	9,201	8,487

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.

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	
	30.09.2017 RM'000	30.09.2016 RM'000	30.09.2017 RM'000	30.09.2016 RM'000
Profit before taxation	10,403	17,649	30,599	26,901
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	2,497	4,236	7,344	6,456
Section 110B tax credit set off	(533)	(1,143)	(1,473)	(2,284)
Income not subject to tax	(993)	(854)	(2,384)	(1,538)
Expenses not deductible for tax purposes	2,252	2,516	6,480	5,053
Changes in unrecognised deferred tax assets	(149)	(174)	(632)	411
	3,074	4,581	9,335	8,098
(Over)/under provision in prior financial period				
- Current tax	(134)	388	(134)	389
	2,940	4,969	9,201	8,487

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	
		30.09.2017	30.09.2016	30.09.2017	30.09.2016
Net profit attributable to owners of the Company	(RM'000)	7,450	12,638	21,374	18,345
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	3.68	6.25	10.56	9.07

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.

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 30.09.2017 RM'000	As at 31.12.2016 RM'000	As at 30.09.2017 RM'000	As at 31.12.2016 RM'000
Actuarial liabilities	2,370,224	2,282,558	2,369,123	2,278,073
Unallocated surplus	40,153	63,402	40,153	63,402
Fair value reserve	108,214	46,840	108,214	46,840
Asset revaluation reserve	1,116	1,116	1,116	1,116
Investment-linked policyholders' account	1,313,400	1,197,495	1,313,400	1,197,495
	<u>3,833,107</u>	<u>3,591,411</u>	<u>3,832,006</u>	<u>3,586,926</u>

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

	Gross		Net	
	As at 30.09.2017 RM'000	As at 31.12.2016 RM'000	As at 30.09.2017 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	41,247	28,541	44,133	27,338
New business reserve	9,840	26,426	10,338	25,902
Discount rate and other changes	36,579	64,192	36,579	64,192
Unallocated surplus	(23,249)	(99,292)	(23,249)	(99,292)
Fair value reserve, net of tax	61,374	(6,247)	61,374	(6,247)
Asset revaluation reserve				
- Revaluation adjustment	-	(50)	-	(50)
- Reversal on revaluation	-	324	-	324
	-	274	-	274
Investment-linked policyholders' account	115,905	172,205	115,905	172,205
At 30 September/31 December	<u>3,833,107</u>	<u>3,591,411</u>	<u>3,832,006</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 30.09.2017 RM'000	As at 31.12.2016 RM'000
Investment holding	11,187	8,819
Life insurance business:-		
Shareholder's fund	19,730	9,020
Non Investment-linked business	52,259	77,390
Investment-linked business	1,356	4,671
Asset management services	69,775	38,299
	<u>154,307</u>	<u>138,199</u>

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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:

	30.09.2017	Cumulative 9 months ended 30.09.2016
	RM'000	RM'000
Expenses/(income):		
Intermediate holding company		
Reimbursement of personnel expenses	6,003	3,957
Reimbursement of software maintenance expenses	2,433	4,043
Waiver of prior years software maintenance expenses	<u>(3,178)</u>	<u>-</u>
Subsidiaries of ultimate holding company		
Outsourced information technology service expenses	194	2,739
Software development expenses	103	4,502
Rebate income	(1,932)	(880)
Fund management expenses	<u>836</u>	<u>994</u>

30. Capital and other commitments

	As at 30.09.2017	As at 31.12.2016
	RM'000	RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	<u>17,250</u>	<u>19,500</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.

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 2017					
Financial assets					
AFS financial assets	3,080,333	-	-	-	3,080,333
Financial assets at FVTPL	-	1,471,822	-	-	1,471,822
Loans and receivables	-	-	446,644	-	446,644
Insurance receivables	-	-	16,996	-	16,996
Cash and cash equivalents	-	-	154,307	-	154,307
	<u>3,080,333</u>	<u>1,471,822</u>	<u>617,947</u>	<u>-</u>	<u>5,170,102</u>
Financial liabilities					
Financial liabilities at FVTPL	-	3,882	-	-	3,882
Insurance payables	-	-	-	507,456	507,456
Other payables	-	-	-	160,255	160,255
	<u>-</u>	<u>3,882</u>	<u>-</u>	<u>667,711</u>	<u>671,593</u>

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.

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 30.09.2017 RM'000	As at 31.12.2016 RM'000	As at 30.09.2017 RM'000	As at 31.12.2016 RM'000
Carrying amount	20,421	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	(508)	(654)	-	-
Additions during the period/year	-	89	-	309
Fair value gain/(loss)	-	619	-	(363)
At 30 September/31 December	20,421	20,929	88,071	88,071

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.

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 2017			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	885,559	885,559	-
Real estate investment trusts	6,397	6,397	-
Unit trust funds			
- Quoted in Malaysia	67,102	67,102	-
Malaysian Government Securities	516,441	-	516,441
Government Investment Issues	187,459	-	187,459
Corporate debt securities			
- Unquoted	1,389,064	-	1,389,064
Accrued interest	25,795	-	25,795
	<u>3,077,817</u>	<u>959,058</u>	<u>2,118,759</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	491,087	491,087	-
- Quoted outside Malaysia	8,823	8,823	-
Real estate investment trusts	5,631	5,631	-
Unit trust funds			
- Quoted in Malaysia	20,193	20,193	-
Malaysian Government Securities	40,021	-	40,021
Government Investment Issues	24,404	-	24,404
Corporate debt securities			
- Unquoted	242,442	-	242,442
Mutual funds	635,330	635,330	-
Forward foreign exchange contract	34	-	34
Accrued interest	3,857	-	3,857
	<u>1,471,822</u>	<u>1,161,064</u>	<u>310,758</u>
Financial liabilities at FVTPL			
Forward foreign exchange contract	3,882	-	3,882

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.

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial period ended 30 September 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 30.09.2017	As at 31.12.2016
	RM'000	RM'000
Total retained earnings of the Group:		
- Realised	590,537	594,814
- Unrealised	81,765	77,363
	<u>672,302</u>	<u>672,177</u>
Consolidation adjustments	15,917	15,917
Total retained earnings as per statement of financial position	<u>688,219</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
27 November 2017

Chin Mun Yee
Joint Secretary