

## 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 has performed the assessments on the new MFRSs, amendments/improvements to MFRSs and IC interpretation that are issued by MASB but not yet effective in the current year. The Group has concluded that it meets the predominance criteria under Amendments to MFRS 4 Insurance Contracts. Hence, the Group will defer the adoption of MFRS 9 Financial Instruments until 1 January 2021, which is in line with the adoption of MFRS 17 Insurance Contracts. The Group does not expect significant impact arising from the adoption of MFRS 15 Revenue from Contracts with Customers (“MFRS 15”) effective on 1 January 2018 as the current revenue recognition meets the five-step model established under MFRS 15.

Other than as discussed above, the Group does not expect the adoption of other new pronouncements effective in financial year 2018 to have material impact on the financial statements.

### 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 year ended 31 December 2017.

## **MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

### **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 year ended 31 December 2017, the applicable assumption changes resulted in higher actuarial liabilities of RM30.8 million (31 December 2016: higher actuarial liabilities of RM64.2 million), with a corresponding decrease in unallocated surplus for the participating business of RM29.1 million (31 December 2016: decrease in unallocated surplus of RM62.3 million) and decrease in net profit before tax of RM1.7 million (31 December 2016: decrease in net profit before tax RM1.9 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 2017.

#### **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 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.

The Board of Directors has recommended First and Final dividend of 8.0 sen per share for the financial year ended 31 December 2017, 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**

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 ended 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 did 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 year to date.

## **MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

### **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. Future financial year prospects**

The Group remains cautiously optimistic on the back of strong economic growth, a buoyant stock market and our growing asset management business.

Within our life insurance segment we are expecting to return to growth in our top line, primarily facilitated by a recovery in our bancassurance segment and commencing sales within our newly established Labuan subsidiary. However, we expect to continue to face headwinds with respect to our medical claims. Turning to our wealth and asset management business, the Group expects to see continued growth in gross flows and assets under management, targeting to achieve first-year profitability in 2018. Nonetheless, changing market conditions may result in outcomes that deviate from current expectations.

Taking a mid-term view, we continue to believe there is a growth trend in Malaysia supported by the underpenetration of life insurance coupled with the growing affluent population, which creates a need for insurance and investment solutions. Although this is expected to result in overall industry growth, we aim to out-grow the market, by continuing to execute against the following five strategic themes:

- Creating an unsurpassed customer experience;
- Providing holistic solutions to our customers, including new solutions through our Labuan subsidiary;
- 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.

#### **13. Profit forecast**

The Group did not issue any profit forecast during the financial year ended 31 December 2017.

#### **14. Group borrowings**

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

# MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial year ended 31 December 2017

## 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	
	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	-	-	896,375	877,750	-	-	896,375	877,750
Premiums ceded to reinsurers	-	-	(38,895)	(27,130)	-	-	(38,895)	(27,130)
Net premiums	-	-	857,480	850,620	-	-	857,480	850,620
(b) Investment income	11,678	13,264	174,868	162,752	741	663	187,287	176,679
(c) Net realised gains/(losses)	1,336	126	48,811	17,097	-	-	50,147	17,223
(d) Net fair value (losses)/gains	(882)	(267)	160,165	(68,733)	8	-	159,291	(69,000)
(e) Fee income	-	-	-	-	96,261	60,357	96,261	60,357
(f) Other operating income	1	9	2,152	1,309	17	145	2,170	1,463
<b>Total external revenue</b>	<b>12,133</b>	<b>13,132</b>	<b>1,243,476</b>	<b>963,045</b>	<b>97,027</b>	<b>61,165</b>	<b>1,352,636</b>	<b>1,037,342</b>
<u>Inter-segment revenue</u>								
(a) Rental income	1,492	1,114	782	746	-	-	2,274	1,860
(b) Fee income	637	889	4,767	3,280	10,751	10,035	16,155	14,204
(c) Dividend Income	-	-	3,497	3,753	-	-	3,497	3,753
(d) Net realised (losses)/gains	-	-	(141)	403	-	-	(141)	403
<b>Total inter-segment revenue</b>	<b>2,129</b>	<b>2,003</b>	<b>8,905</b>	<b>8,182</b>	<b>10,751</b>	<b>10,035</b>	<b>21,785</b>	<b>20,220</b>
<b>Total revenue by segment</b>	<b>14,262</b>	<b>15,135</b>	<b>1,252,381</b>	<b>971,227</b>	<b>107,778</b>	<b>71,200</b>	<b>1,374,421</b>	<b>1,057,562</b>
<b>(Losses)/profit before taxation</b>	<b>(4,377)</b>	<b>(1,070)</b>	<b>48,337</b>	<b>66,578</b>	<b>(2,401)</b>	<b>(3,226)</b>	<b>41,559</b>	<b>62,282</b>
<b>Segment assets</b>	<b>653,145</b>	<b>664,269</b>	<b>5,218,971</b>	<b>4,740,557</b>	<b>193,294</b>	<b>102,040</b>	<b>6,065,410</b>	<b>5,506,866</b>
<b>Segment liabilities</b>	<b>7,750</b>	<b>13,815</b>	<b>4,660,766</b>	<b>4,240,724</b>	<b>153,421</b>	<b>59,623</b>	<b>4,821,937</b>	<b>4,314,162</b>

**MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

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

**18. Operating segments (continued)**

**Reconciliation of reportable segments**

	<b>Cumulative 12 months ended</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Total revenue</u></b>		
Total revenue for reportable segments	1,374,421	1,057,562
Elimination of inter-segment revenue	(21,785)	(20,220)
<b>Total revenue as per statement of profit or loss</b>	<b>1,352,636</b>	<b>1,037,342</b>
	<b>As at</b>	<b>As at</b>
	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b><u>Segment assets</u></b>		
Total assets for reportable segments	6,065,410	5,506,866
Elimination of inter-segment assets	(431,426)	(394,510)
<b>Total assets as per statement of financial position</b>	<b>5,633,984</b>	<b>5,112,356</b>
<b><u>Segment liabilities</u></b>		
Total liabilities for reportable segments	4,821,937	4,314,162
Elimination of inter-segment liabilities	(3,277)	(925)
<b>Total liabilities as per statement of financial position</b>	<b>4,818,660</b>	<b>4,313,237</b>

**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.

<b>Business Segment</b>	<b>3 months ended</b>			<b>Cumulative 12 months ended</b>		
	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Increase/ (Decrease)</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Increase/ (Decrease)</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>Operating Revenue</u></b>						
Investment holding	2,620	2,974	(354)	11,678	13,264	(1,586)
Life insurance business	322,506	266,325	56,181	1,071,243	1,040,502	30,741
Asset management services	26,600	16,375	10,225	97,002	61,020	35,982
<b>Total</b>	<b>351,726</b>	<b>285,674</b>	<b>66,052</b>	<b>1,179,923</b>	<b>1,114,786</b>	<b>65,137</b>
<b><u>Profit/(loss) before taxation</u></b>						
Investment holding	(3,104)	(397)	(2,707)	(4,377)	(1,070)	(3,307)
Life insurance business	15,631	35,065	(19,434)	48,337	66,578	(18,241)
Asset management services	(1,567)	713	(2,280)	(2,401)	(3,226)	825
<b>Total</b>	<b>10,960</b>	<b>35,381</b>	<b>(24,421)</b>	<b>41,559</b>	<b>62,282</b>	<b>(20,723)</b>

## MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial year ended 31 December 2017

### Notes to the Interim Financial Statements (Continued)

#### 19. Review of performance (continued)

##### **Financial Year ended 31 December 2017 vs Financial Year ended 31 December 2016**

The Group's operating revenue for the financial year ended 31 December 2017 (Year-To-Date ("YTD") December 2017), recorded an increase of RM65.1 million or 5.8% compared to the corresponding financial year ended 31 December 2016 (2017: RM1,179.9 million, 2016: RM1,114.8 million). However, the Group's profit before tax was reduced by RM20.7 million as compared to the profit before tax in the corresponding YTD December 2016 (2017: RM41.6 million, 2016: RM62.3 million).

Performance of the respective operating business segments are as follows:

**Investment holding** – Operating revenue was RM1.6 million lower as compared to YTD December 2016 and loss before tax increased by RM3.3 million mainly due to lower investment income from fixed income securities and higher management expenses.

**Life insurance business** – Operating revenue of life insurance business increased by RM30.7 million mainly due to higher premium income recorded from investment-linked fund and higher investment income. Profit before tax was, however, RM18.2 million lower compared to YTD December 2016 mainly due to higher reserving of actuarial liabilities as a result of lower Malaysian Government Securities ("MGS") yield, higher distribution channel expenses incurred for business expansion initiatives and worsened claims experience.

**Asset management services** – Operating revenue increased RM36.0 million or 59.0% compared to YTD December 2016. Loss before tax reduced by RM0.8 million mainly attributable to higher fee income from higher unit trust sales and higher management fee earned from higher Asset Under Management ("AUM"), offset by higher commission expenses.

##### **4th Quarter 2017 vs 4th Quarter 2016**

The Group's operating revenue for the quarter ended 31 December 2017 increased by RM66.1 million or 23.1% compared to the corresponding quarter ended 31 December 2016 (2017: RM351.7 million, 2016: RM285.6 million). The Group's profit before tax was RM11.0 million for the current quarter, decreased by RM24.4 million as compared to the profit before tax in the corresponding quarter ended 31 December 2016 of RM35.4 million.

Performance of the respective operating business segments are as follows:

**Investment holding** – Operating revenue decreased by RM0.3 million or 11.6% as compared to the preceding year's corresponding quarter due to lower investment income from fixed income securities and loss before tax widened by RM2.7 million attributable to higher management expenses.

**Life insurance business** – Operating revenue of life insurance business increased by RM56.2 million mainly due to higher single premium income recorded from investment-linked fund. Profit before tax lowered by RM19.4 million in the current quarter due to higher reserving of actuarial liabilities as a result of lower Malaysian Government Securities ("MGS") yield and worsened claims experience.

**Asset management services** – Operating revenue increased RM10.2 million or 62.4% compared to preceding year's corresponding quarter. However, the segment reported a loss before tax RM1.6 million compared to a profit before tax of RM0.7 million in 4th quarter 2016 mainly due to higher management expenses and allowance of impairment on intangible asset in current quarter.

**MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

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

<b>Business Segment</b>	<b>3 months ended</b>		
	<b>31.12.2017</b>	<b>30.09.2017</b>	<b>Increase/(Decrease)</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>Operating Revenue</u></b>			
Investment holding	2,620	2,543	77
Life insurance business	322,506	260,000	62,506
Asset management services	26,600	27,671	(1,071)
<b>Total</b>	<b>351,726</b>	<b>290,214</b>	<b>61,512</b>
<b><u>Profit/(loss) before taxation</u></b>			
Investment holding	(3,104)	(393)	(2,711)
Life insurance business	15,631	11,047	4,584
Asset management services	(1,567)	(251)	(1,316)
<b>Total</b>	<b>10,960</b>	<b>10,403</b>	<b>557</b>

The Group's operating revenue for the current quarter under review ("Q4 2017") increased by RM61.5 mil as compared to preceding quarter ended 30 September 2017 ("Q3 2017"). The Group recorded a higher profit before tax at RM11.0 million in Q4 2017 as compared to the profit before tax at RM10.4 million in Q3 2017.

The higher profit before tax of RM0.6 million was contributed by the following segments:

**Investment holding** – Operating revenue remains relatively stable for both quarters. However, loss before tax increased by RM2.7 mil attributable to higher management expenses and decrease in fair value of investment property in current quarter.

**Life insurance business** – Operating revenue of life insurance business increased by RM62.5 million mainly due to higher premium income in Q4 2017 as compared to Q3 2017. Profit before tax increased by RM4.6 million or 41.5% as compared to preceding quarter. This was mainly arising from the improved claims experience and favourable impact on actuarial liabilities as a result of improved MGS yield in current quarter.

**Asset management services** – Operating revenue decreased by RM1.1 million and recorded a higher loss of RM1.3 million as compared to preceding quarter mainly due to higher management expenses and allowance of impairment on intangible asset in current quarter.

**MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

**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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
First year premium	43,819	43,657	132,074	123,846
Renewal year premium	157,740	142,816	566,732	513,550
Single premium	62,624	29,339	158,674	213,224
<b>Total</b>	<b>264,183</b>	<b>215,812</b>	<b>857,480</b>	<b>850,620</b>

**22. Investment income**

	3 months ended		Cumulative 12 months ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,712	3,817	14,146	14,169
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	3,918	2,142	15,013	11,968
- quoted outside Malaysia	8	58	188	124
- real estate investment trusts				
- quoted in Malaysia	93	65	324	137
- mutual funds				
- outside Malaysia	2,318	2,776	6,960	7,780
Net (amortisation of premiums)/ accretion of discounts	(86)	(554)	275	(499)
<u>AFS financial assets</u>				
Interest/profit income	24,591	23,065	94,714	88,709
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	6,900	5,873	27,275	23,064
- quoted outside Malaysia	424	-	424	-
- unquoted in Malaysia	-	35	282	334
- real estate investment trusts				
- quoted in Malaysia	93	103	314	277
- unit trusts	2,098	1,147	2,098	1,147
Net (amortisation of premiums)/ accretion of discounts	(594)	(18)	(1,421)	64
<u>Loans and receivables</u>				
Interest/profit income	4,739	4,574	19,073	21,004
Accretion of discounts, net of amortisation of premiums	-	-	-	484
<u>Investment property</u>				
Rental income	1,577	1,763	6,892	6,929
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	188	203	730	988
	<u>49,979</u>	<u>45,049</u>	<u>187,287</u>	<u>176,679</u>

**MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

**Notes to the Interim Financial Statements (Continued)****23. Other operating expenses/(income)**

	3 months ended		Cumulative 12 months ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange losses/(gains)	23,107	(47,096)	52,739	(39,500)
Interest expense on agent's bond withheld	4	4	17	17
Others	1,751	365	6,570	716
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	4,189	1,055	17,583	12,879
- Deferred tax	437	(233)	4,357	(4,266)
	4,626	822	21,940	8,613
	29,488	(45,905)	81,266	(30,154)

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 year.

**24. Profit before taxation**

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

	3 months ended		Cumulative 12 months ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	2,487	2,812	9,365	10,694
Depreciation of property and equipment	901	1,012	3,733	3,486
Investment income (Note 22)	(49,979)	(45,049)	(187,287)	(176,679)
Allowance of impairment on intangible assets	1,026	-	1,026	-
Reversal of impairment loss on insurance receivables	-	-	(1)	(162)
Allowance of impairment loss on other receivables	-	-	3	9
(Reversal)/allowance of impairment loss on loans receivable	(113)	(12)	38	147
Net foreign exchange losses/(gains)	23,107	(47,096)	52,739	(39,500)
Net realised (gains)/losses:				
- realised losses/(gain) on disposal of property and equipment	-	-	1	(42)
- realised gains on disposal of AFS investments	(20,731)	(10,250)	(50,148)	(17,181)
	(20,731)	(10,250)	(50,147)	(17,223)

**MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

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

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

	<b>3 months ended</b>		<b>Cumulative 12 months ended</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net fair value (gains)/losses:				
- fair value losses on investment properties	157	363	157	363
- fair value (gains)/losses on FVTPL investments/derivatives	(45,286)	52,272	(171,462)	41,630
- impairment loss on quoted equities	5,272	7,980	12,014	27,007
	(39,857)	60,615	(159,291)	69,000

**25. Taxation**

	<b>3 months ended</b>		<b>Cumulative 12 months ended</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Income tax</u>				
Current financial year	4,368	9,627	13,870	17,438
Over provision in prior financial years	-	(1,393)	(134)	(1,004)
	4,368	8,234	13,736	16,434
<u>Deferred tax</u>				
Reversal of temporary differences	(63)	(902)	(230)	(615)
	(63)	(902)	(230)	(615)
	4,305	7,332	13,506	15,819

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 12 months ended	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Profit before taxation	10,960	35,381	41,559	62,282
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	2,630	8,492	9,974	14,948
Section 110B tax credit set off	(656)	(231)	(2,129)	(2,515)
Income not subject to tax	(1,397)	58	(3,781)	(1,480)
Expenses not deductible for tax purposes	3,635	791	10,115	5,844
Changes in unrecognised deferred tax assets	93	(385)	(539)	26
	4,305	8,725	13,640	16,823
Over provision in prior financial period/year				
- Current tax	-	(1,393)	(134)	(1,004)
	4,305	7,332	13,506	15,819

**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	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
Net profit attributable to owners of the Company	(RM'000)	6,644	28,100	28,018	46,445
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	3.28	13.88	13.84	22.95

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 (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

**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 31.12.2017 RM'000	As at 31.12.2016 RM'000	As at 31.12.2017 RM'000	As at 31.12.2016 RM'000
Actuarial liabilities	2,402,886	2,282,558	2,401,614	2,278,073
Unallocated surplus	40,603	63,402	40,603	63,402
Fair value reserve	108,864	46,840	108,864	46,840
Asset revaluation reserve	1,480	1,116	1,480	1,116
Investment-linked policyholders' account	1,394,289	1,197,495	1,394,289	1,197,495
	<u>3,948,122</u>	<u>3,591,411</u>	<u>3,946,850</u>	<u>3,586,926</u>

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

	Gross		Net	
	As at 31.12.2017 RM'000	As at 31.12.2016 RM'000	As at 31.12.2017 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	73,841	28,541	73,090	27,338
New business reserve	15,689	26,426	15,485	25,902
Discount rate and other changes	30,798	64,192	34,966	64,192
Unallocated surplus	(22,799)	(99,292)	(22,799)	(99,292)
Fair value reserve, net of tax	62,024	(6,247)	62,024	(6,247)
Asset revaluation reserve				
- Revaluation adjustment	30	(50)	30	(50)
- Reversal on revaluation	334	324	334	324
	364	274	364	274
Investment-linked policyholders' account	196,794	172,205	196,794	172,205
At 31 December	<u>3,948,122</u>	<u>3,591,411</u>	<u>3,946,850</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 31.12.2017 RM'000	As at 31.12.2016 RM'000
Investment holding	9,047	8,819
Life insurance business:-		
Shareholder's fund	22,283	9,021
Non Investment-linked business	72,644	77,389
Investment-linked business	2,896	4,671
Asset management services	42,103	38,299
	<u>148,973</u>	<u>138,199</u>

**MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 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:

	<b>31.12.2017</b>	<b>Cumulative 12 months ended 31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Expenses/(income):</b>		
<b>Intermediate holding company</b>		
Reimbursement of personnel expenses	9,978	5,503
Reimbursement of software maintenance expenses	3,701	3,583
Waiver of prior years software maintenance expenses	<u>(3,178)</u>	<u>-</u>
<b>Subsidiaries of ultimate holding company</b>		
Outsourced information technology service expenses	414	4,244
Software development expenses	24	5,740
Rebate income	(3,903)	(1,120)
Fund management expenses	<u>1,151</u>	<u>1,084</u>

**30. Capital and other commitments**

	<b>As at 31.12.2017</b>	<b>As at 31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Other commitments</b>		
Exclusive bancassurance agreement		
- Authorised but not provided for	<u>16,500</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.

**MANULIFE HOLDINGS BERHAD (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

**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
<b>31 December 2017</b>					
<b>Financial assets</b>					
AFS financial assets	3,090,586	-	-	-	3,090,586
Financial assets at FVTPL	-	1,536,831	-	-	1,536,831
Loans and receivables	-	-	585,475	-	585,475
Insurance receivables	-	-	23,971	-	23,971
Cash and cash equivalents	-	-	148,973	-	148,973
	<u>3,090,586</u>	<u>1,536,831</u>	<u>758,419</u>	<u>-</u>	<u>5,385,836</u>
<b>Financial liabilities</b>					
Insurance payables	-	-	-	526,936	526,936
Other payables	-	-	-	248,117	248,117
	<u>-</u>	<u>-</u>	<u>-</u>	<u>775,053</u>	<u>775,053</u>
<b>31 December 2016</b>					
<b>Financial assets</b>					
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>
<b>Financial liabilities</b>					
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 (24851-H)**

Interim financial statements for the financial year ended 31 December 2017

**Notes to the Interim Financial Statements (Continued)****32. Financial asset/(liability) at fair value through profit or loss**Derivatives

The table below shows the fair value of derivative financial instruments, recorded as asset or liability, together with their notional amounts. The notional amount, recorded at gross, is the amount of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. Derivative financial instruments held by the Group are forward foreign exchange contract to hedge its currency risk, any fair value gains/losses on this financial instrument are recognised as financial asset/liability.

	Notional amount RM'000	Fair value gain/(loss) recognised as		Net carrying amount RM'000
		Financial asset RM'000	Financial liability RM'000	
<b>31 December 2017</b>				
<b>Hedging derivative:</b>				
Forward foreign exchange contract				
- Less than 1 year	454,603	4,284	-	4,284
	<u>454,603</u>	<u>4,284</u>	<u>-</u>	<u>4,284</u>
<b>31 December 2016</b>				
<b>Hedging derivative:</b>				
Forward foreign exchange contract				
- Less than 1 year	386,222	-	(549)	(549)
	<u>386,222</u>	<u>-</u>	<u>(549)</u>	<u>(549)</u>

There is no change in risks and policies associated with the derivatives and its related accounting policies since the financial year ended 31 December 2016.

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

**33. 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.

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:

	<b>Freehold property</b>		<b>Investment property</b>	
	<b>As at 31.12.2017 RM'000</b>	<b>As at 31.12.2016 RM'000</b>	<b>As at 31.12.2017 RM'000</b>	<b>As at 31.12.2016 RM'000</b>
Carrying amount	26,400	20,929	82,600	88,071
Fair value as stated in valuation report*	26,400	20,929	82,600	88,071

\* Based on the valuation conducted by an independent qualified valuer on 29 December 2017.

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

**33. Determination of fair values and fair value hierarchy (continued)**

**a) Freehold property and investment property (continued)**

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

	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Range</b>
<b>2017</b>			
Freehold/ investment property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.50 - RM5.03 psf
		Average rental for reversionary period	RM4.50 psf
<b>2016</b>			
Freehold/ investment property	Income method	Term period's net yield	6.00%
		Reversionary period's net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.40 - RM5.03 psf
		Average rental for reversionary period	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:

	<b>Freehold property</b>		<b>Investment property</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	20,929	20,875	88,071	88,125
Depreciation charge for the year	(677)	(654)	-	-
Additions during the year	-	89	-	309
Transfer of investment property to freehold property	5,314	-	(5,314)	-
Fair value gains/(losses)	834	619	(157)	(363)
At 31 December	<u>26,400</u>	<u>20,929</u>	<u>82,600</u>	<u>88,071</u>

## **Notes to the Interim Financial Statements (Continued)**

### **33. 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)**

**33. 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.

	<b>Carrying amount RM'000</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>
<b>31 December 2017</b>			
<b>AFS financial assets</b>			
Equity securities			
- Quoted in Malaysia	848,318	848,318	-
- Quoted outside Malaysia	39,690	39,690	-
Real estate investment trusts	6,550	6,550	-
Unit trust funds	67,570	67,570	-
Malaysian Government Securities	524,193	-	524,193
Government Investment Issues	186,496	-	186,496
Corporate debt securities			
- Unquoted	1,393,226	-	1,393,226
Accrued interest	22,027	-	22,027
	<u>3,088,070</u>	<u>962,128</u>	<u>2,125,942</u>
<b>Financial assets at FVTPL</b>			
Equity securities			
- Quoted in Malaysia	521,921	521,921	-
- Quoted outside Malaysia	12,663	12,663	-
Real estate investment trusts	7,543	7,543	-
Unit trust funds	61,531	61,531	-
Malaysian Government Securities	40,950	-	40,950
Government Investment Issues	24,302	-	24,302
Corporate debt securities			
- Unquoted	242,177	-	242,177
Mutual funds	618,047	618,047	-
Forward foreign exchange contract	4,284	-	4,284
Accrued interest	3,413	-	3,413
	<u>1,536,831</u>	<u>1,221,705</u>	<u>315,126</u>

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

**33. 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)

	<b>Carrying amount RM'000</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>
<b>31 December 2016</b>			
<b>AFS financial assets</b>			
Equity securities			
- Quoted in Malaysia	762,736	762,736	-
Real estate investment trusts	11,116	11,116	-
Unit trust funds	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>
<b>Financial assets at FVTPL</b>			
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	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>
<b>Financial liabilities at FVTPL</b>			
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.

**BY ORDER OF THE BOARD**

Chua Siew Chuan  
**Joint Secretary**  
26 February 2018

Chin Mun Yee  
**Joint Secretary**