

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 2017, 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 2017.

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 2017, except for the adoption of the following amendments/interpretation to MFRS:

<u>Description</u>	<u>Effective Date</u>
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Amendments to MFRS 1 First-Time Adoption of MFRS (Annual Improvements to MFRS Standard 2014-2016 Cycle)	1 January 2018
Amendments to MFRS 4 Insurance Contract Liabilities (Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts)	1 January 2018
Amendments to MFRS 128 Investments in Associate and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2018
IC interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

As at the date of authorisation of these interim financial statements, 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 additional disclosures are as set out in Note 34.

Other than as discussed above, the adoption of the above amendments/interpretation 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.

3. Status of audit qualification

There was no audit qualification in the annual financial statements for the preceding financial year ended 31 December 2017.

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.

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Notes to the Interim Financial Statements (Continued)

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 30 June 2018.

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 June 2018, the applicable assumption changes resulted in lower actuarial liabilities of RM3.4 million (30 June 2017: higher actuarial liabilities of RM24.8 million), with a corresponding decrease in unallocated surplus for the participating business of RM0.7 million (30 June 2017: decrease in unallocated surplus of RM14.9 million) and increase in net profit before tax of RM4.1 million (30 June 2017: decrease in net profit before tax RM9.9 million).

Other than as disclosed above, there were no changes in the basis used for accounting estimates for the current financial period ended 30 June 2018.

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 June 2018.

8. Dividends

A First and Final dividend of 8.0 sen per share, amounting to RM16,189,600 for the financial year ended 31 December 2017, was approved at the Annual General Meeting held on 5 June 2018 and the dividend was paid on 20 July 2018.

No dividend has been declared in respect of the current financial period ended 30 June 2018.

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

MAAKL Mutual Berhad ("MAAKL"), a wholly-owned subsidiary of the Group, was dissolved on 1 August 2018.

Other than the above, 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 recent transition of power within the Malaysia government and broader protectionist measures between US and China have created uncertainties resulting in downward pressures on both our life insurance and wealth management businesses. Nonetheless, the Group remains cautiously optimistic on the back of strong economic growth and the growing need for Malaysians to consume protection and wealth management solutions.

While the life insurance segment continued to face headwinds, particularly in the bancassurance segment, our newly established Labuan subsidiary anticipate commence to record sales in the second half of 2018. Despite the uncertain stock market, our wealth business continues to experience year on year growth in both the gross sales and assets-under-management. We remain optimistic in achieving full year profitability in 2018. Nonetheless, changing market conditions may result in outcomes that deviate from current expectations.

Taking a mid-term view, we remain bullish regarding growth prospects in Malaysia supported by the underpenetration of life insurance coupled with the growing affluent population, which creates a need for protection and wealth management 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 period ended 30 June 2018.

14. Group borrowings

The Group did not have any borrowings as at 30 June 2018.

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 6 months ended 30 June							
	Investment holding		Life insurance business		Asset management services		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	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	-	-	438,474	404,737	-	-	438,474	404,737
Premiums ceded to reinsurers	-	-	(22,156)	(17,355)	-	-	(22,156)	(17,355)
Net premiums	-	-	416,318	387,382	-	-	416,318	387,382
(b) Investment income	6,247	6,515	86,964	84,000	217	275	93,428	90,790
(c) Net realised gains	1,849	214	32,266	14,149	101	-	34,216	14,363
(d) Net fair value (losses)/gains	(452)	(87)	(111,157)	108,927	8	(1)	(111,601)	108,839
(e) Fee income	-	-	-	-	58,807	42,456	58,807	42,456
(f) Other operating income	1	1	1,104	1,332	14	8	1,119	1,341
Total external revenue	7,645	6,643	425,495	595,790	59,147	42,738	492,287	645,171
<u>Inter-segment revenue</u>								
(a) Rental income	755	749	389	392	-	-	1,144	1,141
(b) Fee income	619	263	2,424	2,308	5,784	5,377	8,827	7,948
(c) Dividend income from equity securities	-	-	1,927	1,886	-	-	1,927	1,886
(d) Dividend income from subsidiary	100,000	-	-	-	-	-	100,000	-
(e) Net realised gain/(loss)	-	-	91	(17)	-	-	91	(17)
Total inter-segment revenue	101,374	1,012	4,831	4,569	5,784	5,377	111,989	10,958
Total revenue by segment	109,019	7,655	430,326	600,359	64,931	48,115	604,276	656,129
Profit/(loss) before taxation	442	(880)	20,193	21,659	1,960	(583)	22,595	20,196
Segment assets	832,936	683,030	5,037,755	4,990,051	186,312	112,843	6,057,003	5,785,924
Segment liabilities	39,414	32,553	4,570,048	4,462,991	144,590	70,984	4,754,052	4,566,528

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Notes to the Interim Financial Statements (Continued)**18. Operating segments (continued)****Reconciliation of reportable segments**

	Cumulative 6 months ended	
	30.06.2018	30.06.2017
	RM'000	RM'000
<u>Total revenue</u>		
Total revenue for reportable segments	604,276	656,129
Elimination of inter-segment revenue	(111,989)	(10,958)
Total revenue as per statement of profit or loss	492,287	645,171
	As at	As at
	30.06.2018	30.06.2017
	RM'000	RM'000
<u>Segment assets</u>		
Total assets for reportable segments	6,057,003	5,785,924
Elimination of inter-segment assets*	(498,506)	(417,264)
Total assets as per statement of financial position	5,558,497	5,368,660
<u>Segment liabilities</u>		
Total liabilities for reportable segments	4,754,052	4,566,528
Elimination of inter-segment liabilities	(3,617)	(2,098)
Total liabilities as per statement of financial position	4,750,435	4,564,030

*The elimination is mainly due to investment in subsidiaries and investment in unit trust fund managed by a subsidiary company.

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 6 months ended		
	30.06.2018	30.06.2017	Increase/ (Decrease)	30.06.2018	30.06.2017	Increase/ (Decrease)
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Operating Revenue</u>						
Investment holding	3,463	3,434	29	6,247	6,515	(268)
Life insurance business	265,052	255,724	9,328	525,438	488,737	36,701
Asset management services	27,055	23,234	3,821	59,024	42,731	16,293
Total	295,570	282,392	13,178	590,709	537,983	52,726
<u>Profit/(loss) before taxation</u>						
Investment holding	899	(479)	1,378	442	(880)	1,322
Life insurance business	9,764	13,077	(3,313)	20,193	21,659	(1,466)
Asset management services	1,515	215	1,300	1,960	(583)	2,543
Total	12,178	12,813	(635)	22,595	20,196	2,399

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Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

Financial Period ended 30 June 2018 vs Financial Period ended 30 June 2017

The Group's operating revenue for the financial period ended 30 June 2018 increased by RM52.7 million or 9.8% compared to the corresponding financial period ended 30 June 2017 (2018: RM590.7 million, 2017: RM538.0 million). The Group's profit before tax for YTD June 2018 was RM22.6 million, an increase of RM2.4 million or 11.9% as compared to the profit before tax in the corresponding YTD June 2017 of RM20.2 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue decreased by RM0.3 million or 4.1% as compared to the preceding year's corresponding quarter due to lower interest income from fixed income securities, nonetheless profit before taxation rose by RM1.3 million mainly due to release of expenses provision upon liquidation of a subsidiary.

Life insurance business – Operating revenue of life insurance business increased by RM36.7 million mainly due to higher single premium income recorded from investment-linked fund and higher interest income from fixed income securities. Profit before taxation decreased by RM1.5 million due to impairment loss on equity investments and higher management expenses.

Asset management services – Operating revenue increased RM16.3 million or 38.1% compared to preceding year's corresponding YTD June 2017 mainly attributable to higher initial service fee from higher gross sales and higher management fee earned from higher Asset Under Management ("AUM"). The segment reported a profit before taxation of RM2.0 million compared to a loss before tax of RM0.6 million in the corresponding YTD June 2017 mainly due to higher net management fee income from higher AUM.

2nd Quarter 2018 vs 2nd Quarter 2017

The Group's operating revenue for the quarter ended 30 June 2018 increased by RM13.2 million or 4.7% compared to the corresponding quarter ended 30 June 2017 (2018: RM295.6 million, 2017: RM282.4 million). The Group's profit before tax was RM12.2 million for the current quarter, a decrease of RM0.6 million or 5.0% as compared to the profit before tax in the corresponding quarter ended 30 June 2017 of RM12.8 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue remain stable for both quarters. Profit before taxation of RM0.9 million was reported as compared to preceding year's corresponding quarter loss before taxation of RM0.5 million mainly due to release of expenses provision upon liquidation of a subsidiary.

Life insurance business – Operating revenue of life insurance business increased by RM9.3 million mainly due to higher single premium income recorded from investment-linked fund. Profit before taxation decreased by RM3.3 million in the current quarter due to impairment loss on equity investments, worsen claims experience and higher management expenses.

Asset management services – Operating revenue increased RM3.8 million or 16.4% compared to preceding year's corresponding quarter mainly attributable to higher management fee earned from higher Asset Under Management ("AUM"). The segment reported a profit before taxation of RM1.5 million, an increase of RM1.3 million due to higher net management fee income 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		
	30.06.2018	31.03.2018	Increase/(Decrease)
	RM'000	RM'000	RM'000
<u>Operating Revenue</u>			
Investment holding	3,463	2,784	679
Life insurance business	265,052	260,386	4,666
Asset management services	27,055	31,969	(4,914)
Total	295,570	295,139	431
<u>Profit/(loss) before taxation</u>			
Investment holding	899	(457)	1,356
Life insurance business	9,764	10,429	(665)
Asset management services	1,515	445	1,070
Total	12,178	10,417	1,761

The Group's operating revenue for the current quarter under review ("Q2 2018") increased by RM0.4 mil as compared to preceding quarter ended 31 March 2018 ("Q1 2018"). The Group recorded a relatively higher profit before taxation at RM12.2 million in Q2 2018 as compared to the profit before taxation at RM10.4 million in Q1 2018. The increase of profit before taxation by RM1.8 million was contributed by the following segments:

Investment holding – Operating revenue increased by RM0.7 million due to higher investment income from equity securities. Profit before tax of RM0.9 mil was reported mainly due to release of expenses provision upon liquidation of a subsidiary.

Life insurance business – Operating revenue of life insurance business increased by RM4.7 million mainly due to higher premium income in Q2 2018 as compared to Q1 2018. Nonetheless, profit before taxation decreased by RM0.7 million. These were mainly due to impairment loss on equity investments and worsen claims experience.

Asset management services – Operating revenue decreased by RM5.0 million attributable to lower initial service fee from lower gross sale in Q2 2018 compared to Q1 2018. The segment recorded profit before taxation of RM1.1 million mainly due to higher net management fee income from higher AUM in Q2 2018 and lower management expenses.

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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 6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
First year premium	23,496	30,821	48,144	56,973
Renewal year premium	148,807	140,611	286,975	266,354
Single premium	38,089	33,701	81,199	64,055
Total	210,392	205,133	416,318	387,382

22. Investment income

	3 months ended		Cumulative 6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,614	3,256	7,251	6,852
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	3,560	3,251	8,103	6,956
- quoted outside Malaysia	43	47	48	53
- real estate investment trusts	90	85	183	143
- unit trust funds	464	-	464	-
- mutual funds				
- quoted outside Malaysia	1,199	1,450	2,464	3,189
Net (amortisation of premiums)/ accretion of discounts	(99)	(64)	(179)	442
<u>AFS financial assets</u>				
Interest/profit income	24,858	23,195	49,212	45,849
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	6,278	6,571	12,953	13,618
- quoted outside Malaysia	229	-	393	-
- real estate investment trusts	85	89	177	130
Net amortisation of premiums	(650)	(244)	(1,216)	(375)
<u>Loans and receivables</u>				
Interest/profit income	5,359	5,067	9,797	9,666
<u>Investment property</u>				
Rental income	1,642	2,183	3,325	3,915
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	231	177	453	352
	<u>46,903</u>	<u>45,063</u>	<u>93,428</u>	<u>90,790</u>

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

	3 months ended		Cumulative 6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange (gain)/loss	(22,814)	16,818	4,720	21,045
Interest expense on agent's bond withheld	4	4	8	8
Others	1,316	2,587	2,023	3,099
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	2,693	4,499	8,094	8,428
- Deferred tax	(5,387)	460	(9,699)	5,166
	(2,694)	4,959	(1,605)	13,594
	(24,188)	24,368	5,146	37,746

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% (2017: 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 6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	1,646	2,255	3,409	4,657
Depreciation of property and equipment	895	929	1,783	1,854
Investment income (Note 22)	(46,903)	(45,063)	(93,428)	(90,790)
Reversal of impairment loss on insurance receivables	(2)	-	(2)	(1)
Allowance of impairment loss on other receivables	-	3	-	3
Reversal of impairment loss on loans receivable	(15)	-	(121)	-
Net foreign exchange (gain)/losses	(22,814)	16,818	4,720	21,045
Net realised gains				
- realised (gain)/loss on disposal of property and equipment	(95)	-	(95)	1
- realised gains on disposal of AFS investments	(16,909)	(6,991)	(34,121)	(14,364)
	(17,004)	(6,991)	(34,216)	(14,363)

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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 6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Net fair value losses/(gains):				
- fair value losses/(gains) on FVTPL investments/derivatives	78,841	(44,374)	84,601	(113,081)
- impairment loss on quoted equities	22,213	3,001	27,000	4,242
	101,054	(41,373)	111,601	(108,839)

25. Taxation

	3 months ended		Cumulative 6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
<u>Income tax</u>				
Current financial period	4,186	3,551	7,396	6,283
	4,186	3,551	7,396	6,283
<u>Deferred tax</u>				
Reversal of temporary differences	(226)	(45)	(243)	(22)
	(226)	(45)	(243)	(22)
	3,960	3,506	7,153	6,261

The income tax for the Group is calculated based on the tax rate of 24% (2017: 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 6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	12,178	12,813	22,595	20,196
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	2,923	3,075	5,423	4,847
Section 110B tax credit set off	(490)	(510)	(935)	(940)
Income not subject to tax	(513)	(789)	(1,566)	(1,391)
Expenses not deductible for tax purposes	1,932	2,242	4,215	4,228
Changes in unrecognised deferred tax assets	108	(512)	16	(483)
	<u>3,960</u>	<u>3,506</u>	<u>7,153</u>	<u>6,261</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 6 months ended	
		30.06.2018	30.06.2017	30.06.2018	30.06.2017
Net profit attributable to owners of the Company	(RM'000)	8,201	9,306	15,425	13,924
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	4.05	4.60	7.62	6.88

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 30.06.2018 RM'000	As at 31.12.2017 RM'000	As at 30.06.2018 RM'000	As at 31.12.2017 RM'000
Actuarial liabilities	2,446,808	2,402,886	2,445,110	2,401,614
Unallocated surplus	35,103	40,603	35,103	40,603
Fair value reserve	25,064	108,864	25,064	108,864
Asset revaluation reserve	1,480	1,480	1,480	1,480
Investment-linked policyholders' account	1,334,826	1,394,289	1,334,826	1,394,289
	<u>3,843,281</u>	<u>3,948,122</u>	<u>3,841,583</u>	<u>3,946,850</u>

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

	Gross		Net	
	As at 30.06.2018 RM'000	As at 31.12.2017 RM'000	As at 30.06.2018 RM'000	As at 31.12.2017 RM'000
At 1 January	3,948,122	3,591,411	3,946,850	3,586,926
Inforce reserve movement	33,943	73,841	33,580	73,090
New business reserve	13,350	15,689	13,287	15,485
Discount rate and other changes	(3,371)	30,798	(3,371)	34,966
Unallocated surplus	(5,500)	(22,799)	(5,500)	(22,799)
Fair value reserve, net of tax	(83,800)	62,024	(83,800)	62,024
Asset revaluation reserve				
- Revaluation adjustment	-	30	-	30
- Reversal on revaluation	-	334	-	334
	-	364	-	364
Investment-linked policyholders' account	(59,463)	196,794	(59,463)	196,794
At 30 June/31 December	<u>3,843,281</u>	<u>3,948,122</u>	<u>3,841,583</u>	<u>3,946,850</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 30.06.2018 RM'000	As at 31.12.2017 RM'000
Investment holding	3,194	9,047
Life insurance business:-		
Shareholder's fund	13,628	22,283
Non Investment-linked business	63,175	72,644
Investment-linked business	4,745	2,896
Asset management services	62,977	42,103
	<u>147,719</u>	<u>148,973</u>

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Interim financial statements for the six months financial period ended 30 June 2018

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:

	30.06.2018	Cumulative 6 months ended 30.06.2017
	RM'000	RM'000
Expenses/(income):		
Intermediate holding company		
Reimbursement of personnel expenses	4,078	3,994
Reimbursement of software maintenance expenses	1,566	1,632
Waiver of prior years' software maintenance expenses	-	(3,178)
Provision of IT infrastructure support	607	-
	<hr/>	<hr/>
Subsidiaries of ultimate holding company		
Outsourced information technology service expenses	-	253
Software development expenses	-	103
Rebate income	(5,201)	(993)
Fund management expenses	766	614
	<hr/>	<hr/>

30. Capital and other commitments

	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	15,000	16,500
	<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.

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the six months financial period ended 30 June 2018

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 June 2018					
Financial assets					
AFS financial assets	3,063,790	-	-	-	3,063,790
Financial assets at FVTPL	-	1,429,580	-	-	1,429,580
Loans and receivables	-	-	650,761	-	650,761
Insurance receivables	-	-	16,625	-	16,625
Cash and cash equivalents	-	-	147,719	-	147,719
	<u>3,063,790</u>	<u>1,429,580</u>	<u>815,105</u>	<u>-</u>	<u>5,308,475</u>
Financial liabilities					
Financial liabilities at FVTPL	-	3,760	-	-	3,760
Insurance payables	-	-	-	536,418	536,418
Other payables	-	-	-	276,435	276,435
	<u>-</u>	<u>3,760</u>	<u>-</u>	<u>812,853</u>	<u>816,613</u>
31 December 2017					
Financial assets					
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>
Financial liabilities					
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>

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the six months financial period ended 30 June 2018

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	
30 June 2018				
Hedging derivative:				
Forward foreign exchange contract				
- Less than 1 year	7,749	38	-	38
- Less than 1 year	412,117	-	(3,760)	(3,760)
31 December 2017				
Hedging derivative:				
Forward foreign exchange contract				
- Less than 1 year	454,603	4,284	-	4,284

There is no change in risks and policies associated with the derivatives and its related accounting policies since the financial year ended 31 December 2017.

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the six months financial period ended 30 June 2018

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:

	Freehold property		Investment property	
	As at 30.06.2018	As at 31.12.2017	As at 30.06.2018	As at 31.12.2017
	RM'000	RM'000	RM'000	RM'000
Carrying amount	26,136	26,400	82,600	82,600
Fair value as stated in valuation report*	26,400	26,400	82,600	82,600

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

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the six months financial period ended 30 June 2018

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:

	Valuation technique	Significant unobservable inputs	Range
2017			
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 Outgoings for term period Outgoings for reversionary period	6.00% 6.25% 5.00% RM4.40 - RM5.03 psf RM4.50 psf RM1.60 psf RM1.60 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	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
At 1 January	26,400	20,929	82,600	88,071
Depreciation charge for the period/year	(264)	(677)	-	-
Transfer of investment property to freehold property	-	5,314	-	(5,314)
Fair value gain/(loss)	-	834	-	(157)
At 30 June/31 December	<u>26,136</u>	<u>26,400</u>	<u>82,600</u>	<u>82,600</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.

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the six months financial period ended 30 June 2018

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.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
30 June 2018			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	726,803	726,803	-
- Quoted outside Malaysia	115,306	115,306	-
Real estate investment trusts	5,842	5,842	-
Unit trust funds	68,420	68,420	-
Malaysian Government Securities	435,372	-	435,372
Government Investment Issues	183,693	-	183,693
Corporate debt securities			
- Unquoted	1,504,023	-	1,504,023
Accrued interest	21,815	-	21,815
	<u>3,061,274</u>	<u>916,371</u>	<u>2,144,903</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	439,085	439,085	-
- Quoted outside Malaysia	12,645	12,645	-
Real estate investment trusts	5,536	5,536	-
Unit trust funds	115,296	115,296	-
Malaysian Government Securities	28,558	-	28,558
Government Investment Issues	23,670	-	23,670
Corporate debt securities			
- Unquoted	234,418	-	234,418
Mutual funds	567,200	567,200	-
Forward foreign exchange contract	38	-	38
Accrued interest	3,134	-	3,134
	<u>1,429,580</u>	<u>1,139,762</u>	<u>289,818</u>
	<u>4,490,854</u>	<u>2,056,133</u>	<u>2,434,721</u>
Financial liabilities at FVTPL			
Forward foreign exchange contract	<u>3,760</u>	<u>-</u>	<u>3,760</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)

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
31 December 2017			
AFS financial assets			
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>
Financial assets at FVTPL			
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>
	<u>4,624,901</u>	<u>2,183,833</u>	<u>2,441,068</u>

Unquoted equity securities of RM 2,516,566 (31 December 2017: 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 six months financial period ended 30 June 2018

Notes to the Interim Financial Statements (Continued)**34. Additional disclosures under Amendments to MFRS 4 Insurance Contract Liabilities**

In order to compare with entities applying MFRS 9, the amendments require deferring entities to disclose additional information including contractual cash flows characteristics and credit exposure of the financial assets. The following table presents the Group's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

For the six months period ended 30 June 2018	Fair value as at 1 January 2018 RM'000	Change in fair value* RM'000	Fair value as at 30 June 2018 RM'000	Result of the cash flows characteristics test
Financial assets				
Equity securities				
- Quoted in Malaysia	1,370,239	(204,351)	1,165,888	Non-SPPI
- Quoted outside Malaysia	52,353	75,598	127,951	Non-SPPI
Real estate investment trusts	14,093	(2,715)	11,378	Non-SPPI
Unit trust funds	129,101	54,615	183,716	Non-SPPI
Malaysian Government Securities	565,143	(101,213)	463,930	SPPI
Government Investment Issues	210,798	(3,435)	207,363	SPPI
Corporate debt securities				
- Unquoted	1,635,403	103,038	1,738,441	SPPI
Mutual funds	618,047	(50,847)	567,200	Non-SPPI
Forward foreign exchange contract	4,284	(4,246)	38	Non-SPPI
Accrued interest	25,440	(491)	24,949	SPPI
Loans and receivables	585,475	65,286	650,761	SPPI
Cash and cash equivalents	148,973	(1,254)	147,719	SPPI
	<u>5,359,349</u>	<u>(70,015)</u>	<u>5,289,334</u>	

* Includes purchases, disposals, maturities and realised/unrealised gains/(losses).

The following table shows the fair value of financial assets by credit quality:

As at 30 June 2018	AAA RM'000	AA RM'000	A RM'000	Non-rated RM'000	Total RM'000
Financial assets					
Malaysian Government Securities	-	-	-	463,930	463,930
Government Investment Issues	-	-	-	207,363	207,363
Corporate debt securities					
- Unquoted	830,543	475,954	13,698	418,246	1,738,441
Accrued interest	9,982	3,883	156	10,928	24,949
Loans and receivables	-	-	-	650,761	650,761
Cash and cash equivalents	147,719	-	-	-	147,719
	<u>988,244</u>	<u>479,837</u>	<u>13,854</u>	<u>1,751,228</u>	<u>3,233,163</u>

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
20 August 2018

Chin Mun Yee
Joint Secretary