

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the nine months financial period ended 30 September 2018

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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5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 30 September 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 September 2018, the applicable assumption changes resulted in higher actuarial liabilities of RM29.7 million (30 September 2017: higher actuarial liabilities of RM36.6 million), with a corresponding decrease in unallocated surplus for the participating business of RM24.0 million (30 September 2017: decrease in unallocated surplus of RM29.4 million) and decrease in net profit before tax of RM5.7 million (30 September 2017: decrease in net profit before tax RM7.2 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 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 September 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 September 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.

A dormant subsidiary, British American Investments Pte Ltd ("BAI") had on 1 November 2018 been placed under Members' Voluntary Winding Up. The affairs and conduct of the company is now placed under the control of the Liquidator who will manage the entire process of liquidation. The winding up have no material impact on the financial results on the Group for the financial period ended 30 September 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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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

Policy shifts resulting from the newly established Malaysia government as well as broader protectionist measures between US and China have created uncertainties resulting in downward pressures on both our life insurance and wealth management businesses. In addition, we are paying out higher policyholder benefits within our medical portfolio. As a result of these cumulative factors, we expect to see short-term earnings pressure within our life insurance business for 2018. Turning to our wealth and asset management segment, despite uncertainty within the local and regional equity markets, we remain optimistic in the current year growth prospects of our asset management business and are on track to achieve profitability in 2018. Nonetheless, changing market conditions may result in outcomes that deviate from current expectations.

Taking a mid-term view, we remain bullish on the growth prospects of both our segments on the back of expected economic growth, underpenetration of life insurance and growing affluent population, all of which will increase the demand for protection and wealth management solutions. While this is expected to result in overall industry growth, we aim to out-grow the market by executing against the following strategic themes for each of our respective businesses:

Life Insurance Business

- Commencing agency transformation;
- Addressing foundational issues within our existing bancassurance platform;
- Bringing to market HNW solutions through our Labuan business;
- Increasing our digital capabilities;
- Building a high performance team & culture; and
- Launching our cost-fit program.

Wealth & Asset Management Business

- Driving recruitment and increasing productivity of our sales force; and
- Riding on our extensive regional presence by expanding our international product offerings.

13. Profit forecast

The Group did not issue any profit forecast during the financial period ended 30 September 2018.

14. Group borrowings

The Group did not have any borrowings as at 30 September 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 9 months ended 30 September							
	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	-	-	661,834	620,969	-	-	661,834	620,969
Premiums ceded to reinsurers	-	-	(33,563)	(27,672)	-	-	(33,563)	(27,672)
Net premiums	-	-	628,271	593,297	-	-	628,271	593,297
(b) Investment income	10,405	9,058	136,076	127,768	433	482	146,914	137,308
(c) Net realised gains	1,888	1,149	44,715	28,267	101	-	46,704	29,416
(d) Net fair value (losses)/gains	(549)	(102)	(94,193)	119,533	(1)	3	(94,743)	119,434
(e) Fee income	-	-	-	-	84,031	69,920	84,031	69,920
(f) Other operating income	2	1	1,730	1,758	20	11	1,752	1,770
Total external revenue	11,746	10,106	716,599	870,623	84,584	70,416	812,929	951,145
<u>Inter-segment revenue</u>								
(a) Rental income	1,132	1,123	588	588	-	-	1,720	1,711
(b) Fee income	1,022	476	6,615	3,549	8,761	8,146	16,398	12,171
(c) Dividend income from equity securities	-	-	2,886	2,612	-	-	2,886	2,612
(d) Dividend income from subsidiary	100,000	-	-	-	-	-	100,000	-
(e) Net realised gain/(loss)	-	-	115	(27)	-	-	115	(27)
Total inter-segment revenue	102,154	1,599	10,204	6,722	8,761	8,146	121,119	16,467
Total revenue by segment	113,900	11,705	726,803	877,345	93,345	78,562	934,048	967,612
Profit/(loss) before taxation	576	(1,273)	25,568	32,706	3,146	(834)	29,290	30,599
Segment assets	751,328	625,577	5,172,358	5,065,406	115,613	126,689	6,039,299	5,817,672
Segment liabilities	25,045	10,373	4,693,361	4,517,632	72,783	85,179	4,791,189	4,613,184

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Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 9 months ended	
	30.09.2018	30.09.2017
	RM'000	RM'000
<u>Total revenue</u>		
Total revenue for reportable segments	934,048	967,612
Elimination of inter-segment revenue	(121,119)	(16,467)
Total revenue as per statement of profit or loss	812,929	951,145
	As at	As at
	30.09.2018	30.09.2017
	RM'000	RM'000
<u>Segment assets</u>		
Total assets for reportable segments	6,039,299	5,817,672
Elimination of inter-segment assets*	(438,699)	(397,661)
Total assets as per statement of financial position	5,600,600	5,420,011
<u>Segment liabilities</u>		
Total liabilities for reportable segments	4,791,189	4,613,184
Elimination of inter-segment liabilities	(11,656)	(2,893)
Total liabilities as per statement of financial position	4,779,533	4,610,291

*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 9 months ended		
	30.09.2018	30.09.2017	Increase/ (Decrease)	30.09.2018	30.09.2017	Increase/ (Decrease)
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Operating Revenue</u>						
Investment holding	4,158	2,543	1,615	10,405	9,058	1,347
Life insurance business	272,472	260,000	12,472	797,910	748,737	49,173
Asset management services	25,440	27,671	(2,231)	84,464	70,402	14,062
Total	302,070	290,214	11,856	892,779	828,197	64,582
<u>Profit/(loss) before taxation</u>						
Investment holding	134	(393)	527	576	(1,273)	1,849
Life insurance business	5,375	11,047	(5,672)	25,568	32,706	(7,138)
Asset management services	1,186	(251)	1,437	3,146	(834)	3,980
Total	6,695	10,403	(3,708)	29,290	30,599	(1,309)

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Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

Financial Period ended 30 September 2018 vs Financial Period ended 30 September 2017

The Group's operating revenue for the financial period ended 30 September 2018 increased by RM64.6 million or 7.8% compared to the corresponding financial period ended 30 September 2017 (2018: RM892.8 million, 2017: RM828.2 million). The Group's profit before tax for YTD September 2018 was RM29.3 million, a decrease of RM1.3 million or 4.2% as compared to the profit before tax in the corresponding YTD September 2017 of RM30.6 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue increased by RM1.3 million or 14.9% as compared to the preceding year's corresponding YTD September 2017 due to higher interest income received. Profit before taxation rose by RM1.8 million mainly due to release of expenses provision upon liquidation of a subsidiary.

Life insurance business – Operating revenue of life insurance business increased by RM49.2 million mainly due to higher single premium income recorded from investment-linked fund. However profit before taxation decreased by RM7.1 million due to actuarial valuation assumption change impact and higher management expenses.

Asset management services – Operating revenue increased RM14.1 million or 20.0% compared to preceding year's corresponding YTD September 2017 mainly attributable to higher management fee earned from higher Asset Under Management ("AUM"). The segment reported a profit before taxation of RM3.1 million compared to a loss before tax of RM0.8 million in the corresponding YTD September 2017 mainly due to higher net management fee income from higher AUM.

3rd Quarter 2018 vs 3rd Quarter 2017

The Group's operating revenue for the quarter ended 30 September 2018 increased by RM11.9 million or 4.1% compared to the corresponding quarter ended 30 September 2017 (2018: RM302.1 million, 2017: RM290.2 million). The Group's profit before tax was RM6.7 million for the current quarter, a decrease of RM3.7 million or 35.6% as compared to the profit before tax in the corresponding quarter ended 30 September 2017 of RM10.4 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue increased by RM1.6 million as compared to Q3 2017 mainly due to higher interest income from fixed income securities. Profit before taxation of RM0.1 million was reported as compared to preceding year's corresponding quarter loss before taxation of RM0.4 million mainly due to higher interest income received.

Life insurance business – Operating revenue of life insurance business increased by RM12.5 million mainly due to higher single premium income recorded from investment-linked fund. Profit before taxation decreased by RM5.7 million in the current quarter due to actuarial valuation assumption change impact and higher management expenses.

Asset management services – Operating revenue decreased RM2.2 million or 8.1% compared to preceding year's corresponding quarter mainly attributable to lower initial service fee earned from lower gross sales. However the segment reported a profit before taxation of RM1.2 million, an increase of RM1.4 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		
	30.09.2018	30.06.2018	Increase/(Decrease)
	RM'000	RM'000	RM'000
<u>Operating Revenue</u>			
Investment holding	4,158	3,463	695
Life insurance business	272,472	265,052	7,420
Asset management services	25,440	27,055	(1,615)
Total	302,070	295,570	6,500
<u>Profit/(loss) before taxation</u>			
Investment holding	134	899	(765)
Life insurance business	5,375	9,764	(4,389)
Asset management services	1,186	1,515	(329)
Total	6,695	12,178	(5,483)

The Group's operating revenue for the current quarter under review ("Q3 2018") increased by RM6.5 mil as compared to preceding quarter ended 30 June 2018 ("Q2 2018"). The Group recorded a lower profit before taxation at RM6.7 million in Q3 2018 as compared to the profit before taxation at RM12.2 million in Q2 2018. The decrease of profit before taxation by RM5.5 million was contributed by the following segments:

Investment holding – Operating revenue increased by RM0.7 million due to higher interest income from fixed income securities. Profit before tax of RM0.1 mil was reported, a decrease of RM0.8 mil is mainly due to release of expense provision upon liquidation of a subsidiary in preceding quarter.

Life insurance business – Operating revenue of life insurance business increased by RM7.4 million mainly due to higher premium income in Q3 2018 as compared to Q2 2018. Nonetheless, profit before taxation decreased by RM4.4 million. These were mainly due to unfavorable actuarial valuation assumption change impact and lower Malaysia Government Securities ("MGS") yield which resulted in higher reserving of actuarial liabilities.

Asset management services – Operating revenue decreased by RM1.6 million attributable to lower initial service fee from lower gross sale in Q3 2018 compared to Q2 2018. The segment recorded a decrease of RM0.3 mil profit before taxation mainly due to higher management expenses.

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Net premiums which are stated net of reinsurance expenses comprise the following:-

	3 months ended		Cumulative 9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
First year premium	23,043	31,282	71,187	88,255
Renewal year premium	148,399	142,638	435,374	408,992
Single premium	40,511	31,995	121,710	96,050
Total	211,953	205,915	628,271	593,297

22. Investment income

	3 months ended		Cumulative 9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,773	3,582	11,024	10,434
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	6,083	4,139	14,186	11,095
- quoted outside Malaysia	24	127	72	180
- real estate investment trusts	87	88	270	231
- unit trust funds	874	-	1,338	-
- mutual funds				
- quoted outside Malaysia	1,211	1,453	3,675	4,642
Net (amortisation of premiums)/ accretion of discounts	(95)	(81)	(274)	361
<u>AFS financial assets</u>				
Interest/profit income	25,867	24,274	75,079	70,123
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	9,175	6,757	22,128	20,375
- quoted outside Malaysia	-	-	393	-
- unquoted in Malaysia	87	282	87	282
- real estate investment trusts	87	91	264	221
Net amortisation of premiums	(693)	(452)	(1,909)	(827)
<u>Loans and receivables</u>				
Interest/profit income	5,204	4,668	15,001	14,334
<u>Investment property</u>				
Rental income	1,592	1,400	4,917	5,315
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	210	190	663	542
	<u>53,486</u>	<u>46,518</u>	<u>146,914</u>	<u>137,308</u>

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	3 months ended		Cumulative 9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange (gains)/losses	(13,014)	8,587	(8,294)	29,632
Interest expense on agent's bond withheld	4	5	12	13
Others	1,297	1,720	3,320	4,819
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	4,184	4,966	12,278	13,394
- Deferred tax	5,487	(1,246)	(4,212)	3,920
	9,671	3,720	8,066	17,314
	(2,042)	14,032	3,104	51,778

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 9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	1,592	2,221	5,001	6,878
Depreciation of property and equipment	896	978	2,679	2,832
Investment income (Note 22)	(53,486)	(46,518)	(146,914)	(137,308)
Reversal of impairment loss on insurance receivables	-	-	(2)	(1)
Allowance of impairment loss on other receivables	-	-	-	3
Reversal of impairment loss on loans receivable	(92)	151	(213)	151
Net foreign exchange (gains)/losses	(13,014)	8,587	(8,294)	29,632
Net realised gains				
- realised (gain)/loss on disposal of property and equipment	-	-	(95)	1
- realised gains on disposal of AFS investments	(12,488)	(15,053)	(45,109)	(29,417)
- realised gain on liquidation of subsidiary	-	-	(1,500)	-
	(12,488)	(15,053)	(46,704)	(29,416)

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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 9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Net fair value (gains)/losses:				
- fair value (gains)/losses on FVTPL investments/derivatives	(19,981)	(13,095)	64,620	(126,176)
- impairment loss on quoted equities	3,123	2,500	30,123	6,742
	(16,858)	(10,595)	94,743	(119,434)

25. Taxation

	3 months ended		Cumulative 9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<u>Income tax</u>				
Current financial period	2,754	3,219	10,150	9,502
Over provision in prior financial period	(148)	(134)	(148)	(134)
	2,606	3,085	10,002	9,368
<u>Deferred tax</u>				
Origination/(reversal) of temporary differences	127	(145)	(116)	(167)
	127	(145)	(116)	(167)
	2,733	2,940	9,886	9,201

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 9 months ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Profit before taxation	6,695	10,403	29,290	30,599
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	1,607	2,497	7,030	7,344
Section 110B tax credit set off	(407)	(533)	(1,342)	(1,473)
Income not subject to tax	(1,532)	(993)	(3,098)	(2,384)
Expenses not deductible for tax purposes	3,194	2,252	7,409	6,480
Changes in unrecognised deferred tax assets	19	(149)	35	(632)
	2,881	3,074	10,034	9,335
Over provision in prior financial period				
- Current tax	(148)	(134)	(148)	(134)
	2,733	2,940	9,886	9,201

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	
		30.09.2018	30.09.2017	30.09.2018	30.09.2017
Net profit attributable to owners of the Company	(RM'000)	3,936	7,450	19,361	21,374
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	1.95	3.68	9.57	10.56

The Company has no potential dilutive ordinary shares in issue as at the date of the statement of financial position and therefore, diluted earnings per share have not been presented.

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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 30.09.2018 RM'000	As at 31.12.2017 RM'000	As at 30.09.2018 RM'000	As at 31.12.2017 RM'000
Actuarial liabilities	2,519,181	2,402,886	2,516,854	2,401,614
Unallocated surplus	13,106	40,603	13,106	40,603
Fair value reserve	65,991	108,864	65,991	108,864
Asset revaluation reserve	1,480	1,480	1,480	1,480
Investment-linked policyholders' account	1,374,821	1,394,289	1,374,821	1,394,289
	<u>3,974,579</u>	<u>3,948,122</u>	<u>3,972,252</u>	<u>3,946,850</u>

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

	Gross		Net	
	As at 30.09.2018 RM'000	As at 31.12.2017 RM'000	As at 30.09.2018 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	60,973	73,841	60,376	73,090
New business reserve	25,599	15,689	25,144	15,485
Discount rate and other changes	29,667	30,798	29,667	34,966
Unallocated surplus	(27,497)	(22,799)	(27,497)	(22,799)
Fair value reserve, net of tax	(42,873)	62,024	(42,873)	62,024
Asset revaluation reserve				
- Revaluation adjustment	-	30	-	30
- Reversal on revaluation	-	334	-	334
	-	364	-	364
Investment-linked policyholders' account	(19,468)	196,794	(19,468)	196,794
Effect of movements in exchange rates	56	-	53	-
At 30 September/31 December	<u>3,974,579</u>	<u>3,948,122</u>	<u>3,972,252</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 30.09.2018 RM'000	As at 31.12.2017 RM'000
Investment holding	3,764	9,047
Life insurance business:-		
Shareholder's fund	15,140	22,283
Non Investment-linked business	52,834	72,644
Investment-linked business	8,417	2,896
Asset management services	35,737	42,103
	<u>115,892</u>	<u>148,973</u>

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the nine months financial period ended 30 September 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:

	30.09.2018	Cumulative 9 months ended 30.09.2017
	RM'000	RM'000
Expenses/(income):		
Intermediate holding company		
Reimbursement of personnel expenses	5,798	6,003
Reimbursement of software maintenance expenses	2,200	2,433
Waiver of prior years' software maintenance expenses	-	(3,178)
Provision of IT infrastructure support	896	-
	<hr/>	<hr/>
Subsidiaries of ultimate holding company		
Outsourced information technology service expenses	-	194
Software development expenses	-	103
Rebate income	(8,260)	(1,932)
Fund management expenses	1,148	836
	<hr/>	<hr/>

30. Capital and other commitments

	As at 30.09.2018	As at 31.12.2017
	RM'000	RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	14,250	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 nine months financial period ended 30 September 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 September 2018					
Financial assets					
AFS financial assets	3,159,626	-	-	-	3,159,626
Financial assets at FVTPL	-	1,521,474	-	-	1,521,474
Loans and receivables	-	-	543,407	-	543,407
Insurance receivables	-	-	13,632	-	13,632
Cash and cash equivalents	-	-	115,892	-	115,892
	<u>3,159,626</u>	<u>1,521,474</u>	<u>672,931</u>	<u>-</u>	<u>5,354,031</u>
Financial liabilities					
Financial liabilities at FVTPL	-	95	-	-	95
Insurance payables	-	-	-	547,458	547,458
Other payables	-	-	-	167,344	167,344
	<u>-</u>	<u>95</u>	<u>-</u>	<u>714,802</u>	<u>714,897</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 nine months financial period ended 30 September 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 September 2018				
Hedging derivative:				
Forward foreign exchange contract				
- Less than 1 year	68,987	13	-	13
- Less than 1 year	326,630	-	(95)	(95)
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 nine months financial period ended 30 September 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 30.09.2018	As at 31.12.2017	As at 30.09.2018	As at 31.12.2017
	RM'000	RM'000	RM'000	RM'000
Carrying amount	26,004	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 nine months financial period ended 30 September 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	(396)	(677)	-	-
Transfer of investment property to freehold property	-	5,314	-	(5,314)
Fair value gain/(loss)	-	834	-	(157)
At 30 September/31 December	26,004	26,400	82,600	82,600

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 nine months financial period ended 30 September 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 September 2018			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	757,862	757,862	-
- Quoted outside Malaysia	122,717	122,717	-
Real estate investment trusts	5,935	5,935	-
Unit trust funds	68,790	68,790	-
Malaysian Government Securities	423,222	-	423,222
Government Investment Issues	162,262	-	162,262
Corporate debt securities			
- Unquoted	1,588,950	-	1,588,950
Accrued interest	27,372	-	27,372
	<u>3,157,110</u>	<u>955,304</u>	<u>2,201,806</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	496,158	496,158	-
- Quoted outside Malaysia	9,597	9,597	-
Real estate investment trusts	5,786	5,786	-
Unit trust funds	121,506	121,506	-
Malaysian Government Securities	34,192	-	34,192
Government Investment Issues	23,907	-	23,907
Corporate debt securities			
- Unquoted	269,107	-	269,107
Mutual funds	557,114	557,114	-
Forward foreign exchange contract	13	-	13
Accrued interest	4,094	-	4,094
	<u>1,521,474</u>	<u>1,190,161</u>	<u>331,313</u>
	<u>4,678,584</u>	<u>2,145,465</u>	<u>2,533,119</u>
Financial liabilities at FVTPL			
Forward foreign exchange contract	95	-	95

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the nine months financial period ended 30 September 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. (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 nine months financial period ended 30 September 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 nine months period ended 30 September 2018	Fair value as at 1 January 2018 RM'000	Change in fair value* RM'000	Fair value as at 30 September 2018 RM'000	Result of the cash flows characteristics test
Financial assets				
Equity securities				
- Quoted in Malaysia	1,370,239	(116,219)	1,254,020	Non-SPPI
- Quoted outside Malaysia	52,353	79,961	132,314	Non-SPPI
Real estate investment trusts	14,093	(2,372)	11,721	Non-SPPI
Unit trust funds	129,101	61,195	190,296	Non-SPPI
Malaysian Government Securities	565,143	(107,729)	457,414	SPPI
Government Investment Issues	210,798	(24,629)	186,169	SPPI
Corporate debt securities				
- Unquoted	1,635,403	222,654	1,858,057	SPPI
Mutual funds	618,047	(60,933)	557,114	Non-SPPI
Forward foreign exchange contract	4,284	(4,271)	13	Non-SPPI
Accrued interest	25,440	6,026	31,466	SPPI
Loans and receivables	585,475	(42,068)	543,407	SPPI
Cash and cash equivalents	148,973	(33,081)	115,892	SPPI
	<u>5,359,349</u>	<u>(21,466)</u>	<u>5,337,883</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 September 2018	AAA RM'000	AA RM'000	A RM'000	Non-rated RM'000	Total RM'000
Financial assets					
Malaysian Government Securities	-	-	-	457,414	457,414
Government Investment Issues	-	-	-	186,169	186,169
Corporate debt securities					
- Unquoted	872,971	529,830	13,713	441,543	1,858,057
Accrued interest	9,592	7,900	139	13,835	31,466
Loans and receivables	-	-	-	543,407	543,407
Cash and cash equivalents	115,892	-	-	-	115,892
	<u>998,455</u>	<u>537,730</u>	<u>13,852</u>	<u>1,642,368</u>	<u>3,192,405</u>

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
21 November 2018

Chin Mun Yee
Joint Secretary