

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial year ended 31 December 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 2022, 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.

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial year ended 31 December 2018.

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6. Change in estimates

The Group's insurance subsidiaries, Manulife Insurance Berhad and Manulife Insurance Labuan Limited, value the 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, life fund expected long term yield and Malaysian Government Securities (MGS) risk-free interest rate and US treasury yield, where cash flows are denominated in US Dollar Currency.

For the current year ended 31 December 2018, the applicable assumption changes resulted in lower actuarial liabilities of RM33.0 million (31 December 2017: higher actuarial liabilities of RM30.8 million), with a corresponding increase in unallocated surplus for the participating business of RM39.2 million (31 December 2017: decrease in unallocated surplus of RM29.1 million) and decrease in net profit before tax of RM6.2 million (31 December 2017: decrease in net profit before tax RM1.7 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 2018.

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 2018.

8. Dividends

The Board of Directors has recommended First and Final dividend of 7.0 sen per share for the financial year ended 31 December 2018, subject to the approval of the shareholders at the forthcoming Annual General Meeting.

9. Material events subsequent to the end of the financial year

There is no material event subsequent to the end of the financial year under review that has not been reported in the interim financial statements for the current financial year 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 year ended 31 December 2018.

The Company had on 30 November 2018 subscribed for additional 1,000,000 ordinary shares at an issue price of USD1.00 each in the capital of Manulife Insurance Labuan Limited, a wholly-owned subsidiary of the Company.

Other than the above, there were no significant changes in the composition of the Group for the current financial year 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. Future financial year prospects

Looking ahead, we expect the Malaysian economy to remain on a steady growth path in 2019. While public sector spending is expected to be subdued due to the ongoing reprioritization of government projects and the export sector slower as a result of geopolitical tensions, strong private consumption and rising investment activity is expected to drive overall economic momentum. Though the local stock market will continue to see volatility in 2019, we are seeing values emerging and opportunities for out-performance. We also expect buying interest in our local bond market to be supported by ample domestic liquidity and a slower pace of monetary policy tightening by the US Fed.

In view of this, the Group is cautiously optimistic on the outlook for 2019 where we will be looking to grow our asset management segment leveraging both the agency and partnership distribution channels as well as venture into the institutional/pension market. We will also continue to tap on our extensive Global experience in order to expand our international product offerings, and to provide more innovative/unique products in the market. Turning to our life insurance segment, we will continue to focus on expanding our distribution footprint and modernizing our operations.

13. Profit forecast

The Group did not issue any profit forecast during the financial year ended 31 December 2018.

14. Group borrowings

The Group did not have any borrowings as at 31 December 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 year 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 12 months ended 31 December							
	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	-	-	913,371	896,375	-	-	913,371	896,375
Premiums ceded to reinsurers	-	-	(47,965)	(38,895)	-	-	(47,965)	(38,895)
Net premiums	-	-	865,406	857,480	-	-	865,406	857,480
(b) Investment income	14,446	11,678	181,712	174,868	930	741	197,088	187,287
(c) Net realised gains	1,590	1,336	36,055	48,811	101	-	37,746	50,147
(d) Net fair value (losses)/gains	(581)	(882)	(211,415)	160,165	19	8	(211,977)	159,291
(e) Fee income	-	-	-	-	106,734	96,105	106,734	96,105
(f) Other operating income	2	1	2,382	2,175	465	17	2,849	2,193
Total external revenue	15,457	12,133	874,140	1,243,499	108,249	96,871	997,846	1,352,503
<u>Inter-segment revenue</u>								
(a) Rental income	1,605	1,492	784	782	-	-	2,389	2,274
(b) Fee income	1,195	637	4,412	4,767	11,686	10,751	17,293	16,155
(c) Dividend income from equity securities	-	-	3,862	3,497	-	-	3,862	3,497
(d) Dividend income from subsidiary	100,000	-	-	-	-	-	100,000	-
(e) Net realised gain/(loss)	-	-	250	(141)	-	-	250	(141)
Total inter-segment revenue	102,800	2,129	9,308	8,905	11,686	10,751	123,794	21,785
Total revenue by segment	118,257	14,262	883,448	1,252,404	119,935	107,622	1,121,640	1,374,288
Profit/(loss) before taxation	1,500	(4,377)	32,426	48,337	4,301	(2,401)	38,227	41,559
Segment assets	729,700	653,145	5,096,957	5,218,971	130,124	193,294	5,956,781	6,065,410
Segment liabilities	19,622	7,750	4,613,169	4,660,766	86,271	153,421	4,719,062	4,821,937

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Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 12 months ended	
	31.12.2018	31.12.2017
	RM'000	RM'000
<u>Total revenue</u>		
Total revenue for reportable segments	1,121,640	1,374,288
Elimination of inter-segment revenue	(123,794)	(21,785)
Total revenue as per statement of profit or loss	997,846	1,352,503
	As at	As at
	31.12.2018	31.12.2017
	RM'000	RM'000
<u>Segment assets</u>		
Total assets for reportable segments	5,956,781	6,065,410
Elimination of inter-segment assets*	(421,927)	(431,426)
Total assets as per statement of financial position	5,535,854	5,633,984
<u>Segment liabilities</u>		
Total liabilities for reportable segments	4,719,062	4,821,937
Elimination of inter-segment liabilities	(6,079)	(3,277)
Total liabilities as per statement of financial position	4,712,983	4,818,660

*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 12 months ended		
	31.12.2018	31.12.2017	Increase/ (Decrease)	31.12.2018	31.12.2017	Increase/ (Decrease)
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Operating Revenue</u>						
Investment holding	4,041	2,620	1,421	14,446	11,678	2,768
Life insurance business	297,173	322,506	(25,333)	1,095,083	1,071,243	23,840
Asset management services	23,200	26,444	(3,244)	107,664	96,846	10,818
Total	324,414	351,570	(27,156)	1,217,193	1,179,767	37,426
<u>Profit/(loss) before taxation</u>						
Investment holding	924	(3,104)	4,028	1,500	(4,377)	5,877
Life insurance business	6,858	15,631	(8,773)	32,426	48,337	(15,911)
Asset management services	1,155	(1,567)	2,722	4,301	(2,401)	6,702
Total	8,937	10,960	(2,023)	38,227	41,559	(3,332)

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Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

Financial Year ended 31 December 2018 vs Financial Year ended 31 December 2017

The Group's operating revenue for the financial year ended 31 December 2018 increased by RM37.4 million or 3.2% compared to the corresponding financial year ended 31 December 2017 (2018: RM1,217.2 million, 2017: RM1,179.8 million). The Group's profit before tax for YTD December 2018 was RM38.2 million, a decrease of RM3.3 million or 8.0% as compared to the profit before tax in the corresponding YTD December 2017 of RM41.6 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue increased by RM2.8 million or 23.7% as compared to the preceding year's corresponding YTD December 2017 due to higher interest income received. Profit before taxation rose by RM5.9 million mainly due to release of expenses provision upon liquidation of a subsidiary and higher investment income received.

Life insurance business – Operating revenue of life insurance business increased by RM23.8 million mainly due to higher premium income recorded from investment-linked fund and Labuan insurance business. However, profit before taxation decreased by RM15.9 million due to actuarial valuation assumption change impact and lower investment gains from equity investments.

Asset management services – Operating revenue increased RM10.8 million or 11.2% compared to preceding year's corresponding YTD December 2017 and reported a profit before taxation of RM4.3 million compared to a loss before tax of RM2.4 million in the corresponding YTD December 2017 mainly due to higher management fee earned from higher Asset Under Management ("AUM").

4th Quarter 2018 vs 4th Quarter 2017

The Group's operating revenue for the quarter ended 31 December 2018 decreased by RM27.2 million or 7.7% compared to the corresponding quarter ended 31 December 2017 (2018: RM324.4 million, 2017: RM351.6 million). The Group's profit before tax was RM9.0 million for the current quarter, a decrease of RM2.0 million or 17.9% as compared to the profit before tax in the corresponding quarter ended 31 December 2017 of RM11.0 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue increased by RM1.4 million as compared to Q4 2017 mainly due to higher interest income from fixed income securities. Profit before taxation of RM0.9 million was reported as compared to preceding year's corresponding quarter loss before taxation of RM3.1 million mainly due to lower management expenses compared to Q4 2017.

Life insurance business – Operating revenue of life insurance business decreased by RM25.3 million mainly due to lower single premium income recorded from investment-linked fund. Profit before taxation decreased by RM8.8 million in the current quarter due to lower investment gains from equity investments and lower Malaysia Government Securities ("MGS") yield which resulted in higher reserving of actuarial liabilities.

Asset management services – Operating revenue decreased RM3.2 million or 12.3% compared to preceding year's corresponding quarter mainly attributable to lower initial service fee earned from lower gross sales. Nonetheless, profit before taxation increased by RM2.7 million compared to preceding year's corresponding quarter due to lower management expenses and allowance of impairment loss on intangible assets provided in Q4 2017.

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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		
	31.12.2018	30.09.2018	Increase/(Decrease)
	RM'000	RM'000	RM'000
<u>Operating Revenue</u>			
Investment holding	4,041	4,158	(117)
Life insurance business	297,173	272,472	24,701
Asset management services	23,200	25,440	(2,240)
Total	324,414	302,070	22,344
<u>Profit before taxation</u>			
Investment holding	924	134	790
Life insurance business	6,858	5,375	1,483
Asset management services	1,155	1,186	(31)
Total	8,937	6,695	2,242

The Group's operating revenue for the current quarter under review ("Q4 2018") increased by RM22.3 mil as compared to preceding quarter ended 30 September 2018 ("Q3 2018"). The Group recorded a higher profit before taxation of RM9.0 million in Q4 2018 as compared to the profit before taxation at RM6.7 million in Q3 2018. The increase of profit before taxation by RM2.3 million was contributed by the following segments:

Investment holding – Operating revenue remain stagnant compare to Q3 2018, while profit before tax recorded an increase of RM0.8 mil due to lower management expenses.

Life insurance business – Operating revenue of life insurance business increased by RM24.7 million mainly due to higher premium income in Q4 2018 as compared to Q3 2018. Profit before taxation increased by RM1.5 million due to higher new business gains.

Asset management services – Operating revenue and profit before taxation decreased due to lower initial service fee from lower gross sale in Q4 2018 compared to Q3 2018.

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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 12 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
First year premium	38,979	43,819	110,166	132,074
Renewal year premium	165,390	157,740	600,764	566,732
Single premium	32,766	62,624	154,476	158,674
Total	237,135	264,183	865,406	857,480

22. Investment income

	3 months ended		Cumulative 12 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- designated upon initial recognition				
Interest/profit income	4,629	3,712	15,653	14,146
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	1,447	3,918	15,633	15,013
- quoted outside Malaysia	181	8	253	188
- real estate investment trusts	1	93	271	324
- unit trust funds	2,472	-	3,810	-
- mutual funds				
- quoted outside Malaysia	2,415	2,318	6,090	6,960
Net (amortisation of premiums)/ accretion of discounts	(154)	(86)	(428)	275
<u>AFS financial assets</u>				
Interest/profit income	25,531	24,591	100,610	94,714
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	3,143	6,900	25,271	27,275
- quoted outside Malaysia	1,509	424	1,902	424
- unquoted in Malaysia	195	-	282	282
- real estate investment trusts	-	93	264	314
- unit trust funds	2,708	2,098	2,708	2,098
Net amortisation of premiums	(710)	(594)	(2,619)	(1,421)
<u>Loans and receivables</u>				
Interest/profit income	5,017	4,739	20,018	19,073
<u>Investment property</u>				
Rental income	1,453	1,577	6,370	6,892
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	337	188	1,000	730
	<u>50,174</u>	<u>49,979</u>	<u>197,088</u>	<u>187,287</u>

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

	3 months ended		Cumulative 12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Net foreign exchange (gains)/losses	(794)	23,130	(9,088)	52,762
Interest expense on agent's bond withheld	4	4	16	17
Others	2,555	1,751	5,875	6,570
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	641	4,189	12,919	17,583
- Deferred tax	(8,205)	437	(12,417)	4,357
	(7,564)	4,626	502	21,940
	(5,799)	29,511	(2,695)	81,289

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 12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Amortisation of intangible assets	1,545	2,487	6,546	9,365
Depreciation of property and equipment	874	1,054	3,553	3,733
Investment income (Note 22)	(50,174)	(49,979)	(197,088)	(187,287)
Allowance of impairment loss on intangible assets	-	1,026	-	1,026
Reversal of impairment loss on insurance receivables	-	-	(2)	(1)
Allowance of impairment loss on other receivables	-	-	-	3
(Reversal)/allowance of impairment loss on loans receivable	(18)	(113)	(231)	38
Net foreign exchange (gains)/losses (Note 23)	(794)	23,130	(9,088)	52,762

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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 12 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Net realised (gains)/loss:				
- realised (gains)/loss on disposal of property and equipment	(22)	-	(117)	1
- realised loss/(gains) on disposal of AFS investments	8,980	(20,731)	(36,129)	(50,148)
- realised gain on liquidation of subsidiary	-	-	(1,500)	-
	8,958	(20,731)	(37,746)	(50,147)
Net fair value (gains)/losses:				
- investment property	(109)	157	(109)	157
- fair value (gains)/losses on FVTPL investments/derivatives	92,844	(45,286)	157,464	(171,462)
- impairment loss on quoted equities	24,499	5,272	54,622	12,014
	117,234	(39,857)	211,977	(159,291)

25. Taxation

	3 months ended		Cumulative 12 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
<u>Income tax</u>				
Current financial period	2,504	4,368	12,654	13,870
Over provision in prior financial period	-	-	(148)	(134)
	2,504	4,368	12,506	13,736
<u>Deferred tax</u>				
Reversal of temporary differences	(475)	(63)	(591)	(230)
	(475)	(63)	(591)	(230)
	-	-	-	-
	2,029	4,305	11,915	13,506

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 12 months ended	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Profit before taxation	8,937	10,960	38,227	41,559
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	2,144	2,630	9,174	9,974
Section 110B tax credit set off	(729)	(656)	(2,071)	(2,129)
Income not subject to tax	(889)	(1,397)	(3,987)	(3,781)
Expenses not deductible for tax purposes	1,501	3,635	8,910	10,115
Changes in unrecognised deferred tax assets	2	93	37	(539)
	2,029	4,305	12,063	13,640
Over provision in prior financial period	-	-	-	-
- Current tax	-	-	(148)	(134)
	2,029	4,305	11,915	13,506

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	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
Net profit attributable to owners of the Company	(RM'000)	6,890	6,644	26,251	28,018
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	3.40	3.28	12.97	13.84

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

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Notes to the Interim Financial Statements (Continued)**27. Insurance contract liabilities**

The insurance contract liabilities as at the date of the statement of financial position comprise the following:

	Gross		Net	
	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000
Actuarial liabilities	2,503,329	2,402,886	2,500,479	2,401,614
Unallocated surplus	35,699	40,603	35,699	40,603
Fair value reserve	30,889	108,864	30,889	108,864
Asset revaluation reserve	1,649	1,480	1,649	1,480
Investment-linked policyholders' account	1,301,629	1,394,289	1,301,629	1,394,289
	<u>3,873,195</u>	<u>3,948,122</u>	<u>3,870,345</u>	<u>3,946,850</u>

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

	Gross		Net	
	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000	As at 31.12.2018 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	98,292	73,841	97,831	73,090
New business reserve	35,136	15,689	34,019	15,485
Discount rate and other changes	(33,001)	30,798	(33,001)	34,966
Unallocated surplus	(4,904)	(22,799)	(4,904)	(22,799)
Fair value reserve, net of tax	(77,975)	62,024	(77,975)	62,024
Asset revaluation reserve				
- Revaluation adjustment	(38)	30	(38)	30
- Reversal on revaluation	207	334	207	334
	169	364	169	364
Investment-linked policyholders' account	(92,660)	196,794	(92,660)	196,794
Effect of movements in exchange rates	16	-	16	-
At 31 December	<u>3,873,195</u>	<u>3,948,122</u>	<u>3,870,345</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 31.12.2018 RM'000	As at 31.12.2017 RM'000
Investment holding	2,321	9,047
Life insurance business:-		
Shareholder's fund	22,496	22,283
Non Investment-linked business	42,045	72,644
Investment-linked business	10,254	2,896
Asset management services	53,777	42,103
	<u>130,893</u>	<u>148,973</u>

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial year ended 31 December 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:

	31.12.2018	Cumulative 12 months ended 31.12.2017
	RM'000	RM'000
Expenses/(income):		
Intermediate holding company		
Reimbursement of personnel expenses	8,149	9,978
Reimbursement of software maintenance expenses	3,558	3,701
Waiver of prior years' software maintenance expenses	-	(3,178)
Provision of IT infrastructure support	2,299	-
	<u>2,299</u>	<u>-</u>
Subsidiaries of ultimate holding company		
Outsourced information technology service expenses	-	414
Software development expenses	-	96
Rebate income	(10,759)	(3,903)
Fund management expenses	1,499	1,151
	<u>1,499</u>	<u>1,151</u>

30. Capital and other commitments

	As at 31.12.2018	As at 31.12.2017
	RM'000	RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	13,500	16,500
	<u>13,500</u>	<u>16,500</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 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
31 December 2018					
Financial assets					
AFS financial assets	3,089,541	-	-	-	3,089,541
Financial assets at FVTPL	-	1,561,729	-	-	1,561,729
Loans and receivables	-	-	474,368	-	474,368
Insurance receivables	-	-	24,344	-	24,344
Cash and cash equivalents	-	-	130,893	-	130,893
	<u>3,089,541</u>	<u>1,561,729</u>	<u>629,605</u>	<u>-</u>	<u>5,280,875</u>
Financial liabilities					
Financial liabilities at FVTPL	-	116	-	-	116
Insurance payables	-	-	-	559,159	559,159
Other payables	-	-	-	208,519	208,519
	<u>-</u>	<u>116</u>	<u>-</u>	<u>767,678</u>	<u>767,694</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 financial year ended 31 December 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	
31 December 2018				
Hedging derivative:				
Forward foreign exchange contract				
- Less than 1 year	362,429	3,958	-	3,958
- Less than 1 year	<u>9,193</u>	<u>-</u>	<u>(116)</u>	<u>(116)</u>
31 December 2017				
Hedging derivative:				
Forward foreign exchange contract				
- Less than 1 year	<u>454,603</u>	<u>4,284</u>	<u>-</u>	<u>4,284</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 2017.

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Interim financial statements for the financial year ended 31 December 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:

	<u>Freehold property</u>		<u>Investment property</u>	
	<u>As at 31.12.2018</u>	<u>As at 31.12.2017</u>	<u>As at 31.12.2018</u>	<u>As at 31.12.2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Carrying amount	<u>26,291</u>	<u>26,400</u>	<u>82,709</u>	<u>82,600</u>
Fair value as stated in valuation report*	<u>26,291</u>	<u>26,400</u>	<u>82,709</u>	<u>82,600</u>

* Based on the valuation conducted by an independent qualified valuer on 31 December 2018.

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial year ended 31 December 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
2018			
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 - RM5.11 psf
		Average rental for reversionary period	RM4.50 psf
		Outgoings for term period	RM1.60 psf
		Outgoings for reversionary period	RM1.60 psf
2017			
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	RM4.50 psf
		Outgoings for term period	RM1.60 psf
		Outgoings for reversionary period	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 year	(528)	(677)	-	-
Transfer of investment property to freehold property	-	5,314	-	(5,314)
Fair value gain/(loss)	419	834	109	(157)
At 31 December	<u>26,291</u>	<u>26,400</u>	<u>82,709</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 financial year ended 31 December 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
31 December 2018			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	746,629	746,629	-
- Quoted outside Malaysia	109,339	109,339	-
Real estate investment trusts	8,591	8,591	-
Unit trust funds	70,352	70,352	-
Malaysian Government Securities	328,043	-	328,043
Government Investment Issues	137,236	-	137,236
Corporate debt securities			
- Unquoted	1,663,045	-	1,663,045
Accrued interest	23,790	-	23,790
	<u>3,087,025</u>	<u>934,911</u>	<u>2,152,114</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	493,196	493,196	-
- Quoted outside Malaysia	4,886	4,886	-
Real estate investment trusts	5,786	5,786	-
Unit trust funds	125,768	125,768	-
Malaysian Government Securities	34,398	-	34,398
Government Investment Issues	23,388	-	23,388
Corporate debt securities			
- Unquoted	363,894	-	363,894
- Quoted outside Malaysia	5,076	5,076	-
Mutual funds	496,354	496,354	-
Forward foreign exchange contract	3,958	-	3,958
Accrued interest	5,025	-	5,025
	<u>1,561,729</u>	<u>1,131,066</u>	<u>430,663</u>
	<u>4,647,915</u>	<u>2,065,138</u>	<u>2,582,777</u>
Financial liabilities at FVTPL			
Forward foreign exchange contract	116	-	116

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Interim financial statements for the financial year ended 31 December 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 financial year ended 31 December 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 financial year ended 31 December 2018	Fair value as at 1 January 2018 RM'000	Change in fair value* RM'000	Fair value as at 31 December 2018 RM'000	Result of the cash flows characteristics test	Classification and measurement under MFRS 9
Financial assets					
Equity securities					
- Quoted in Malaysia	1,370,239	(130,414)	1,239,825	Non-SPPI	FVTPL
- Quoted outside Malaysia	52,353	61,872	114,225	Non-SPPI	FVTPL
- Unquoted	2,516	-	2,516	Non-SPPI	FVTPL
Real estate investment trusts	14,093	284	14,377	Non-SPPI	FVTPL
Unit trust funds	129,101	67,019	196,120	Non-SPPI	FVTPL
Malaysian Government Securities	565,143	(202,702)	362,441	SPPI	FVOCI
Government Investment Issues	210,798	(50,174)	160,624	SPPI	FVOCI
Corporate debt securities					
- Unquoted	1,635,403	391,536	2,026,939	SPPI	FVOCI
- Quoted outside Malaysia	-	5,076	5,076	SPPI	FVOCI
Mutual funds	618,047	(121,693)	496,354	Non-SPPI	FVTPL
Forward foreign exchange contract	4,284	(326)	3,958	Non-SPPI	FVTPL
Accrued interest	25,440	3,375	28,815	SPPI	FVOCI
Loans and receivables	585,475	(111,107)	474,368	SPPI	Amortised cost
Insurance receivables	23,971	373	24,344	SPPI	Amortised cost
Cash and cash equivalents	148,973	(18,080)	130,893	SPPI	Amortised cost
	<u>5,385,836</u>	<u>(104,961)</u>	<u>5,280,875</u>		

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

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Interim financial statements for the financial year ended 31 December 2018

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

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

	AAA	AA	A	BBB	Non-rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 31 December 2018						
Financial assets						
Malaysian Government Securities	-	-	-	-	362,441	362,441
Government Investment Issues	-	-	-	-	160,624	160,624
Corporate debt securities						
- Unquoted	985,673	579,224	9,162	-	452,880	2,026,939
- Quoted outside Malaysia**	-	-	2,028	3,048	-	5,076
Accrued interest	12,671	5,549	106	41	10,448	28,815
Loans and receivables	-	-	-	-	474,368	474,368
Insurance receivables	-	6,797	-	-	17,547	24,344
Cash and cash equivalents	118,341	4,424	8,929	-	38	131,732
	<u>1,116,685</u>	<u>595,994</u>	<u>20,225</u>	<u>3,089</u>	<u>1,478,346</u>	<u>3,214,339</u>

** Rated by international rating agencies.

BY ORDER OF THE BOARDChua Siew Chuan
Joint Secretary
27 February 2019Chin Mun Yee
Joint Secretary