

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 2018, 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 2018.

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 2018, except for the adoption of the following amendments/interpretation to MFRS:

<u>Description</u>	<u>Effective Date</u>
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 119 : Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019

The Group has disclosed the effects on the adoption of MFRS 16 leases 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 2018.

4. Seasonal/cyclical factors

The business operations of the Group are subject to the sales cycle of the life insurance business and asset management services.

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period ended 30 June 2019.

Notes to the Interim Financial Statements (Continued)

6. Change in estimates

The Group's insurance subsidiaries, Manulife Insurance Berhad and Manulife Insurance Labuan Limited value 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 2019, the applicable assumption changes resulted in higher actuarial liabilities of RM68.3 million (30 June 2018: lower actuarial liabilities of RM3.4 million), with a corresponding decrease in unallocated surplus for the participating business of RM54.2 million (30 June 2018: decrease in unallocated surplus of RM0.7 million) and decrease in net profit before tax of RM14.1 million (30 June 2018: increase in net profit before tax RM4.1 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 2019.

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 2019.

8. Dividends

A First and Final dividend of 7.0 sen per share, amounting to RM14,165,900 for the financial year ended 31 December 2018, was approved at the Annual General Meeting held on 31 May 2019 and the dividend was paid on 12 July 2019.

No dividend has been declared in respect of the current financial period ended 30 June 2019.

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

There were no significant changes in the composition of the Group for the current financial period to date.

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.

Notes to the Interim Financial Statements (Continued)

12. Current financial year prospects

The Group's priority is to grow Manulife's distribution network through various channels and use the combination of insurance and asset management presence to penetrate the market and grow the Group's business.

Life Insurance

Looking ahead, the Group's Insurance Business expects to achieve its aspirations by focusing on 5 core pillars under Manulife's NEXT initiatives:-

- To commence Agency channel transformation via Next Agency
- To return to growth with our exclusive Bancassurance partner
- To increase our digital capabilities for improved customer experience and operational efficiency
- To actively manage the expenditure and optimize resource utilization
- To build a high performing team and culture

The strategies are expected to enhance the operational, services and product capabilities as well as improve distribution reach and proficiency.

Asset Management Business

External headwinds such as the on-going trade wars, Brexit fallout and slowing global growth pose risk to economic and earnings growth expectations. Fortunately, local accommodative monetary policies and fiscal pump-priming should help cushion some of these external pressures. On balance, we expect equity markets to remain volatile while bonds to be supported by ample liquidity and a low interest rate environment.

In view of the above, we remain cautious for the rest of 2019. Tapping on Manulife Investment Management's global expertise, we are expanding our international offerings and providing more innovative products to meet investors' needs in these uncertain times.

13. Profit forecast

The Group did not issue any profit forecast during the financial period ended 30 June 2019.

14. Group borrowings

The Group did not have any borrowings as at 30 June 2019.

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.

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial period ended 30 June 2019

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	
	2019	2018	2019	2018	2019	2018	2019	2018
	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	-	-	436,671	438,474	-	-	436,671	438,474
Premiums ceded to reinsurers	-	-	(28,850)	(22,156)	-	-	(28,850)	(22,156)
Net premiums	-	-	407,821	416,318	-	-	407,821	416,318
(b) Investment income	7,053	6,247	87,583	86,964	351	217	94,987	93,428
(c) Net realised gains /(losses)	330	1,849	20,263	32,266	(67)	101	20,526	34,216
(d) Net fair value (losses)/gains	(240)	(452)	85,747	(111,157)	1,173	8	86,680	(111,601)
(e) Fee income	-	-	-	-	51,844	58,807	51,844	58,807
(f) Other operating income	1	1	1,333	1,104	386	14	1,720	1,119
Total external revenue	7,144	7,645	602,747	425,495	53,687	59,147	663,578	492,287
<u>Inter-segment revenue</u>								
(a) Rental income	968	755	395	389	-	-	1,363	1,144
(b) Fee income	563	619	1,992	2,424	5,870	5,784	8,425	8,827
(c) Dividend income from equity securities	-	-	1,306	1,927	-	-	1,306	1,927
(d) Dividend income from subsidiary	-	100,000	-	-	-	-	-	100,000
(e) Net realised gains	-	-	42	91	-	-	42	91
Total inter-segment revenue	1,531	101,374	3,735	4,831	5,870	5,784	11,136	111,989
Total revenue by segment	8,675	109,019	606,482	430,326	59,557	64,931	674,714	604,276
Profit before taxation	2,901	442	19,201	20,193	3,854	1,960	25,956	22,595
Segment assets	679,406	832,936	5,384,361	5,037,755	198,840	186,312	6,262,607	6,057,003
Segment liabilities	30,848	39,414	4,868,408	4,570,048	151,226	144,590	5,050,482	4,754,052

Notes to the Interim Financial Statements (Continued)

18. Operating segments (continued)

Reconciliation of reportable segments

	Cumulative 6 months ended	
	30.06.2019	30.06.2018
	RM'000	RM'000
<u>Total revenue</u>		
Total revenue for reportable segments	674,714	604,276
Elimination of inter-segment revenue	(11,136)	(111,989)
Total revenue as per statement of profit or loss	663,578	492,287
	As at	As at
	30.06.2019	30.06.2018
	RM'000	RM'000
<u>Segment assets</u>		
Total assets for reportable segments	6,262,607	6,057,003
Elimination of inter-segment assets	(375,740)	(498,506)
Total assets as per statement of financial position	5,886,867	5,558,497
<u>Segment liabilities</u>		
Total liabilities for reportable segments	5,050,482	4,754,052
Elimination of inter-segment liabilities	(12,717)	(3,617)
Total liabilities as per statement of financial position	5,037,765	4,750,435

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		
	30.06.2019	30.06.2018	Increase/ (Decrease)	30.06.2019	30.06.2018	Increase/ (Decrease)
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Operating Revenue</u>						
Investment holding	3,422	3,463	(41)	7,053	6,247	806
Life insurance business	256,511	265,052	(8,541)	524,254	525,438	(1,184)
Asset management services	27,074	27,055	19	52,195	59,024	(6,829)
Total	287,007	295,570	(8,563)	583,502	590,709	(7,207)
<u>Profit before taxation</u>						
Investment holding	1,620	899	721	2,901	442	2,459
Life insurance business	12,515	9,764	2,751	19,201	20,193	(992)
Asset management services	1,702	1,515	187	3,854	1,960	1,894
Total	15,837	12,178	3,659	25,956	22,595	3,361

Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

Financial Period ended 30 June 2019 vs Financial Period ended 30 June 2018

The Group's operating revenue for the financial period ended 30 June 2019 decreased by RM7.2 million or 1.2% compared to the corresponding financial period ended 30 June 2018 (2019: RM583.5 million, 2018: RM590.7 million). The Group's profit before tax for YTD June 2019 was RM25.9 million, an increase of RM3.4 million or 14.9% as compared to the profit before tax in the corresponding YTD June 2018 of RM22.6 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue increased by RM0.8 million or 12.9% as compared to the preceding year's corresponding quarter due to higher interest income from fixed income securities. Profit before taxation rose by RM2.5 million mainly due to higher interest income and lower management expenses.

Life insurance business – Operating revenue of life insurance business decreased by RM1.2 million mainly due to lower single premium income recorded. Profit before taxation decreased by RM1.0 million due to worsen medical claims experience offset by higher new business gains from Universal Life product.

Asset management services – Operating revenue decreased RM6.8 million or 11.6% compared to preceding year's corresponding YTD June 2018 mainly attributable to lower gross sales of unit trust funds. The segment reported an increase of RM1.9 million of profit before taxation (2019: RM3.8 million, 2018: 1.9 million) mainly due to lower management expenses.

2nd Quarter 2019 vs 2nd Quarter 2018

The Group's operating revenue for the quarter ended 30 June 2019 decreased by RM8.6 million or 2.9% compared to the corresponding quarter ended 30 June 2018 (2019: RM287.0 million, 2018: RM295.6 million). The Group's profit before tax was RM15.8 million for the current quarter, increased by RM3.6 million or 30.0% as compared to the profit before tax in the corresponding quarter ended 30 June 2018 of RM12.2 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue remained stable for both quarters. Profit before taxation increased RM0.7 million as a result of lower management expenses.

Life insurance business – Operating revenue of life insurance business decreased by RM8.5 million mainly due to lower single premium income recorded in the current quarter compared to the previous year quarter. However, profit before taxation increased by RM2.7 million in the current quarter mainly due to favourable investment results and improved mortality claims experience in the current quarter.

Asset management services – Operating revenue and profit before tax were relatively stable for both quarters which was attributable to higher asset under management and lower management expenses.

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		
	30.06.2019	31.03.2019	Increase/(Decrease)
	RM'000	RM'000	RM'000
<u>Operating Revenue</u>			
Investment holding	3,422	3,631	(209)
Life insurance business	256,511	267,743	(11,232)
Asset management services	27,074	25,121	1,953
Total	287,007	296,495	(9,488)
<u>Profit/(loss) before taxation</u>			
Investment holding	1,620	1,281	339
Life insurance business	12,515	6,686	5,829
Asset management services	1,702	2,152	(450)
Total	15,837	10,119	5,718

The Group's operating revenue for the current quarter under review ("Q2 2019") decreased by RM9.5 mil as compared to preceding quarter ended 31 March 2019 ("Q1 2019"). The Group recorded higher profit before taxation at RM15.8 million in Q2 2019 as compared to the profit before taxation at RM10.1 million in Q1 2019. The increment of profit before taxation by RM5.7 million was contributed by the following segments:

Investment holding – Operating revenue decreased by RM0.2 million was due to lower investment income. However, profit before tax improved by RM0.3 mil was mainly attributable to lower management expenses in Q2 2019 as compared to Q1 2019.

Life insurance business – Operating revenue of life insurance business decreased by RM11.2 million was mainly due to lower single premium in Q2 2019. However, profit before taxation increased RM5.8 million mainly due improved mortality claims experience and lesser interest rate drop which resulted in lesser increase in actuarial liabilities compared to Q1 2019.

Asset management services – Operating revenue increased by RM1.9 million attributable to higher initial service fee from higher gross sales in the current quarter. The segment recorded a slightly lower profit before taxation of RM1.7 million as compared to profit before taxation of RM2.1 million in preceding quarter mainly due to higher management expenses in Q2 2019 as compared to Q1 2019.

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	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
First year premium	32,007	23,496	58,778	48,144
Renewal year premium	148,435	148,807	290,595	286,975
Single premium	17,476	38,089	58,448	81,199
Total	197,918	210,392	407,821	416,318

22. Investment income

	3 months ended		Cumulative 6 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- designated upon initial recognition				
Interest/profit sharing income	5,595	3,614	10,603	7,251
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	3,545	3,840	7,496	8,103
- quoted outside Malaysia	6	43	58	48
- real estate investment trusts				
- quoted in Malaysia	401	90	521	183
- unit trust funds	510	184	988	464
- mutual funds				
- outside Malaysia	770	1,199	1,730	2,464
Net amortisation of premiums	(225)	(99)	(382)	(179)
<u>AFS financial assets</u>				
Interest/profit sharing income	25,684	24,858	50,962	49,212
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	6,253	6,278	12,659	12,953
- quoted outside Malaysia	-	229	266	393
- real estate investment trusts				
- quoted in Malaysia	274	85	434	177
Net amortisation of premiums	(772)	(650)	(1,521)	(1,216)
<u>Loans and receivables</u>				
Interest/profit sharing income	4,204	5,290	8,413	9,728
<u>Investment properties</u>				
Rental income	966	1,642	2,320	3,325
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	211	300	440	522
	<u>47,422</u>	<u>46,903</u>	<u>94,987</u>	<u>93,428</u>

Notes to the Interim Financial Statements (Continued)

23. Other operating expenses/(income)

	3 months ended		Cumulative 6 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Foreign exchange				
- Realised (gains)/losses	(55)	2,263	(1,142)	4,614
- Unrealised (gains)/losses	(8,375)	(25,077)	1,153	106
Interest expense on agent's bond withheld	4	4	8	8
Others	2,415	1,316	4,511	2,023
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	3,063	2,693	6,673	8,094
- Deferred tax	4,051	(5,387)	8,487	(9,699)
	7,114	(2,694)	15,160	(1,605)
	<u>1,103</u>	<u>(24,188)</u>	<u>19,690</u>	<u>5,146</u>

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% (2018: 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	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	1,569	1,646	3,491	3,409
Depreciation of property and equipment	823	895	1,659	1,783
Investment income (Note 22)	(47,422)	(46,903)	(94,987)	(93,428)
Reversal of impairment loss on insurance receivables	-	(2)	-	(2)
Allowance for/(reversal of) impairment loss on loans receivable	64	(15)	171	(121)
Net foreign exchange (gains)/losses	(8,430)	(22,814)	11	4,720
Net realised gains				
- realised gains on disposal of property and equipment	(27)	(95)	(32)	(95)
- realised gains on disposal of AFS investments	(16,198)	(16,909)	(20,494)	(34,121)
	(16,225)	(17,004)	(20,526)	(34,216)

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	
	30.06.2019 RM'000	30.06.2018 RM'000	30.06.2019 RM'000	30.06.2018 RM'000
Net fair value (gains)/losses:				
- fair value (gains)/losses on FVTPL investments/derivatives	(32,891)	78,841	(94,234)	84,601
- impairment loss on quoted equities	3,143	22,213	7,554	27,000
	(29,748)	101,054	(86,680)	111,601

25. Taxation

	3 months ended		Cumulative 6 months ended	
	30.06.2019 RM'000	30.06.2018 RM'000	30.06.2019 RM'000	30.06.2018 RM'000
<u>Income tax</u>				
Current financial period	2,959	4,186	5,720	7,396
Over provision in prior financial years	-	-	(360)	-
	2,959	4,186	5,360	7,396
<u>Deferred tax</u>				
Origination/(reversal) of temporary differences	2	(226)	232	(243)
	2	(226)	232	(243)
	2,961	3,960	5,592	7,153

The income tax for the Group is calculated based on the tax rate of 24% (2018: 24%) of the estimated assessable profit for the financial period.

Notes to the Interim Financial Statements (Continued)

25. Taxation (continued)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate is as below.

	3 months ended		Cumulative 6 months ended	
	30.06.2019 RM'000	30.06.2018 RM'000	30.06.2019 RM'000	30.06.2018 RM'000
Profit before taxation	15,837	12,178	25,956	22,595
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	3,801	2,923	6,229	5,423
Section 110B tax credit set off	(1,299)	(490)	(2,094)	(935)
Income not subject to tax	(333)	(513)	(449)	(1,566)
Expenses not deductible for tax purposes	1,206	1,932	3,435	4,215
Utilisation of prior years tax losses	(1,095)	-	(1,095)	-
Changes in unrecognised deferred tax assets	681	108	(74)	16
	2,961	3,960	5,952	7,153
Over provision in prior financial years				
- Current tax	-	-	(360)	-
	2,961	3,960	5,592	7,153

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	
		30.06.2019	30.06.2018	30.06.2019	30.06.2018
Net profit attributable to owners of the Company	(RM'000)	12,866	8,201	20,349	15,425
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	6.36	4.05	10.06	7.62

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

Notes to the Interim Financial Statements (Continued)

27. Insurance contract liabilities

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

	Gross		Net	
	As at 30.06.2019 RM'000	As at 31.12.2018 RM'000	As at 30.06.2019 RM'000	As at 31.12.2018 RM'000
Actuarial liabilities	2,633,701	2,503,329	2,629,507	2,500,479
Unallocated (deficit)/surplus	(19,219)	35,699	(19,219)	35,699
Fair value reserve	115,186	30,889	115,186	30,889
Asset revaluation reserve	1,649	1,649	1,649	1,649
Investment-linked policyholders' account	1,367,791	1,301,629	1,367,791	1,301,629
	<u>4,099,108</u>	<u>3,873,195</u>	<u>4,094,914</u>	<u>3,870,345</u>

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

	Gross		Net	
	As at 30.06.2019 RM'000	As at 31.12.2018 RM'000	As at 30.06.2019 RM'000	As at 31.12.2018 RM'000
At 1 January	3,873,195	3,948,122	3,870,345	3,946,850
Inforce reserve movement	38,228	98,292	37,694	97,831
New business reserve	23,848	35,136	23,036	34,019
Discount rate and other changes	68,266	(33,001)	68,266	(33,001)
Unallocated surplus	(54,918)	(4,904)	(54,918)	(4,904)
Effect of movements in exchange rate	30	16	32	16
Fair value reserve, net of tax	84,297	(77,975)	84,297	(77,975)
Asset revaluation reserve				
- Revaluation adjustment	-	(38)	-	(38)
- Reversal on revaluation	-	207	-	207
	-	169	-	169
Investment-linked policyholders' account	66,162	(92,660)	66,162	(92,660)
At 30 June/31 December	<u>4,099,108</u>	<u>3,873,195</u>	<u>4,094,914</u>	<u>3,870,345</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 30.06.2019 RM'000	As at 31.12.2018 RM'000
Investment holding	2,828	2,319
Life insurance business:-		
Shareholder's fund	15,975	22,496
Non Investment-linked business	52,796	42,046
Investment-linked business	11,816	10,255
Asset management services	121,075	53,777
	<u>204,490</u>	<u>130,893</u>

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:

	30.06.2019	Cumulative 6 months ended 30.06.2018
	RM'000	RM'000
Expenses/(income):		
Intermediate holding company		
Reimbursement of personnel expenses	3,122	4,078
Reimbursement of software maintenance expenses	2,318	1,566
Provision of IT infrastructure support	710	607
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Subsidiaries of ultimate holding company		
Rebate income	(5,096)	(5,201)
Fund management expenses	811	766
	<hr/>	<hr/>

30. Capital and other commitments

	As at 30.06.2019	As at 31.12.2018
	RM'000	RM'000
Other commitments		
Exclusive bancassurance agreement		
- Authorised but not provided for	12,000	13,500
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The Group is committed to pay annual fees under the terms of the bancassurance agreement. The annual fees will be expensed off to the profit or loss in the year of settlement.

Notes to the Interim Financial Statements (Continued)

31. Financial instruments

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- i) Available-for-sale (“AFS”);
- ii) Fair value through profit or loss - designated upon initial recognition (“FVTPL”);
- iii) Loans and receivables excluding prepayments (“LAR”); and
- iv) Other financial liabilities measured at amortised cost (“OL”).

Group	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
30 June 2019					
Financial assets					
AFS financial assets	3,298,160	-	-	-	3,298,160
Financial assets at FVTPL	-	1,715,242	-	-	1,715,242
Loans and receivables	-	-	395,654	-	395,654
Insurance receivables	-	-	15,020	-	15,020
Cash and cash equivalents	-	-	204,490	-	204,490
	<u>3,298,160</u>	<u>1,715,242</u>	<u>615,164</u>	<u>-</u>	<u>5,628,566</u>
Financial liabilities					
Insurance payables	-	-	-	569,691	569,691
Other payables	-	-	-	263,483	263,483
	<u>-</u>	<u>-</u>	<u>-</u>	<u>833,174</u>	<u>833,174</u>
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>767,794</u>

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 2019				
Hedging derivative:				
Forward foreign exchange contract				
- Less than 1 year	353,225	2,930	-	2,930
	<u>353,225</u>	<u>2,930</u>	<u>-</u>	<u>2,930</u>
31 December 2018				
Hedging derivative:				
Forward foreign exchange contract				
- Less than 1 year	362,429	3,958	-	3,958
- Less than 1 year	9,193	-	(116)	(116)
	<u>362,429</u>	<u>3,958</u>	<u>(116)</u>	<u>3,958</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 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 30.06.2019 RM'000	As at 31.12.2018 RM'000	As at 30.06.2019 RM'000	As at 31.12.2018 RM'000
Carrying amount	26,028	26,291	82,709	82,709
Fair value as stated in valuation report*	26,291	26,291	82,709	82,709

* Based on the valuation conducted by an independent qualified valuer on 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 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 - RM5.11 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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At 1 January	26,291	26,400	82,709	82,600
Depreciation charge for the period/year	(263)	(528)	-	-
Fair value gain	-	419	-	109
At 30 June/31 December	<u>26,028</u>	<u>26,291</u>	<u>82,709</u>	<u>82,709</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 both quoted and unquoted corporate debt securities are based on indicative market prices;
- (iv) The fair values of negotiable instruments of deposit are calculated using the discounted cash flow method based on the maturity of the instruments at discount rates representing the average market rates quoted by at least two licensed banks;
- (v) The fair values of investments in mutual funds and unit trust funds are valued based on the net asset values of the underlying funds as at the reporting date; and
- (vi) The fair values of foreign exchange forward contracts are based on valuations provided by the financial institutions making reference to quoted market prices.

(ii) Fair value hierarchy

The Group categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Group's valuation techniques for determining the fair value of the financial instruments.

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

Level 1 –Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Group has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 –Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc) and inputs that are derived from or corroborated by observable market data.

Level 3 –Fair value measurements using significant non market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk.

In determining the fair value of its financial instruments, the Group uses observable market data, when available, and minimises the use of unobservable inputs to the extent possible when determining fair value.

Notes to the Interim Financial Statements (Continued)

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

b) Financial assets and financial liabilities (continued)

(ii) Fair value hierarchy (continued)

The following table presents the Group's financial assets and financial liabilities that are carried at fair value as at reporting date.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000
30 June 2019			
AFS financial assets			
Equity securities			
- Quoted in Malaysia	808,116	808,116	-
- Quoted outside Malaysia	117,976	117,976	-
Real estate investment trusts	24,478	24,478	-
Unit trust funds	73,931	73,931	-
Malaysian Government Securities	358,219	-	358,219
Government Investment Issues	171,204	-	171,204
Corporate debt securities			
- Unquoted	1,717,799	-	1,717,799
Accrued interest	23,921	-	23,921
	<u>3,295,644</u>	<u>1,024,501</u>	<u>2,271,143</u>
Financial assets at FVTPL			
Equity securities			
- Quoted in Malaysia	559,377	559,377	-
- Quoted outside Malaysia	3,134	3,134	-
Real estate investment trusts	10,035	10,035	-
Unit trust funds	145,059	145,059	-
Malaysian Government Securities	41,331	-	41,331
Government Investment Issues	22,634	-	22,634
Corporate debt securities			
- Unquoted	395,811	-	395,811
- Quoted outside Malaysia	19,541	-	19,541
Mutual funds	509,882	-	509,882
Forward foreign exchange contract	2,930	-	2,930
Accrued interest	5,508	-	5,508
	<u>1,715,242</u>	<u>717,605</u>	<u>997,637</u>
	<u>5,010,886</u>	<u>1,742,106</u>	<u>3,268,780</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 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>629,636</u>	<u>932,093</u>
	<u>4,648,754</u>	<u>1,564,547</u>	<u>3,084,207</u>
Financial liabilities at FVTPL			
Forward foreign exchange contract	116	-	116

Unquoted equity securities of RM 2,516,566 (31 December 2018: 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.

Notes to the Interim Financial Statements (Continued)

34. Effects on adoption of MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. MFRS 16 introduces a single accounting model for a lessee and eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet).

Summary of accounting policies

The following are the new accounting policies of the Group upon adoption of MFRS 16:

- i. **Right-of-use assets**
The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability.
- ii. **Lease liabilities**
The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.
- iii. **Short term leases and leases of low-value assets**
Lease contracts with a remaining lease term of 12 months or less are considered as short term leases and low value asset is defined as asset with a value of RM 21,000 or less.
- iv. **Significant judgement in determining the lease term of contracts with renewal options**
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Transitional provision

The Group adopted MFRS 16 with effect from 1 January 2019 using the modified retrospective approach, and measured the right-of-use asset retrospectively using discount rate at date of transition, under which no restatement of comparative numbers is required.

The Group has applied MFRS 16 to contracts that were previously identified as leases in accordance with MFRS 117 and IFRIC 4. The Group does not apply MFRS 16 to contracts previously identified as not containing leases in accordance with MFRS 117 and IFRIC 4.

The Group elected to use the exemptions under MFRS 16 on lease contracts with a remaining lease term of 12 months or less as of date of initial application, and lease contracts for which the lease asset is of low value.

Notes to the Interim Financial Statements (Continued)

34. Effects on adoption of MFRS 16 Leases (continued)

Impact of adoption of MFRS 16

The following table set out the financial impact arising from the adoption the MFRS 16:

	Right-of-use assets RM'000	Lease Liabilities RM'000	Deferred tax liabilities RM'000	Retained earnings RM'000
Closing balance 31 December 2018	-	-	(16,802)	(704,924)
<u>Effect on adoption of MFRS 16:</u>				
- Recognition of right-of-use assets	1,424	-	-	(1,424)
- Recognition of lease liabilities	-	(1,444)	-	1,444
- Deferred tax	-	-	2	(2)
	<u>1,424</u>	<u>(1,444)</u>	<u>2</u>	<u>18</u>
Opening balance 1 January 2019	<u>1,424</u>	<u>(1,444)</u>	<u>(16,800)</u>	<u>(704,906)</u>

Additional disclosure on adoption of MFRS 16

Operating lease commitment at 31 December 2018 as per previous financial statements prepared under MFRS 117	<u>2,144</u>
Weighted average incremental borrowing rate as at 1 January 2019	3.527%
Present value of operating lease commitment (discounted using borrowing rate)	2,115
Recognition exemption under short term lease assets	<u>(671)</u>
Lease liabilities recognised on 1 January 2019	<u>1,444</u>

MANULIFE HOLDINGS BERHAD (24851-H)

Interim financial statements for the financial period ended 30 June 2019

Notes to the Interim Financial Statements (Continued)

35. 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 period ended 30 June 2019	Fair value as at 1 January 2019 RM'000	Change in fair value* RM'000	Fair value as at 30 June 2019 RM'000	Result of the cash flows characteristics test	Classification and measurement under MFRS 9
Financial assets					
Equity securities					
- Quoted in Malaysia	1,239,825	127,668	1,367,493	Non-SPPI	FVTPL
- Quoted outside Malaysia	114,225	6,885	121,110	Non-SPPI	FVTPL
- Unquoted	2,516	-	2,516	Non-SPPI	FVTPL
Real estate investment trusts	14,377	20,136	34,513	Non-SPPI	FVTPL
Unit trust funds	196,120	22,870	218,990	Non-SPPI	FVTPL
Malaysian Government Securities	362,441	37,109	399,550	SPPI	FVOCI
Government Investment Issues	160,624	33,214	193,838	SPPI	FVOCI
Corporate debt securities					
- Unquoted	2,026,939	86,671	2,113,610	SPPI	FVOCI
- Quoted outside Malaysia	5,076	14,465	19,541	SPPI	FVOCI
Mutual funds	496,354	13,528	509,882	Non-SPPI	FVTPL
Forward foreign exchange contract	3,958	(1,028)	2,930	Non-SPPI	FVTPL
Accrued interest	28,815	614	29,429	SPPI	FVOCI
Loans and receivables	474,368	(78,714)	395,654	SPPI	Amortised cost
Insurance receivables	24,344	(9,324)	15,020	SPPI	Amortised cost
Cash and cash equivalents	130,893	73,597	204,490	SPPI	Amortised cost
	<u>5,280,875</u>	<u>347,691</u>	<u>5,628,566</u>		

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

Notes to the Interim Financial Statements (Continued)

35. Additional disclosures under Amendments to MFRS 4 Insurance Contract Liabilities (continued)

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

As at 30 June 2019	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
Financial assets						
Malaysian Government Securities	-	-	-	-	399,550	399,550
Government Investment Issues	-	-	-	-	193,838	193,838
Corporate debt securities						
- Unquoted	1,044,843	563,822	9,206	-	495,739	2,113,610
- Quoted outside Malaysia*	-	-	7,869	9,753	1,919	19,541
Accrued interest	12,816	5,230	109	147	11,127	29,429
Loans and receivables	115,448	32,160	14,446	-	233,600	395,654
Cash and cash equivalents	181,493	11,472	11,427	-	98	204,490
	<u>1,354,600</u>	<u>612,684</u>	<u>43,057</u>	<u>9,900</u>	<u>1,335,871</u>	<u>3,356,112</u>

* Rated by international rating agencies

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
21 August 2019

Chin Mun Yee
Joint Secretary