



MCIS INSURANCE BERHAD
(435318-U)
(Incorporated in Malaysia)

Unaudited Condensed Interim Financial Statements
For the six-month period ended 30 June 2017

435318-U

**MCIS Insurance Berhad
(Incorporated in Malaysia)**

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MCIS Insurance Berhad
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Unaudited condensed statement of financial position
As at 30 June 2017

	Note	30.06.2017 RM'000	31.12.2016 RM'000
Assets			
Property and equipment		108,208	107,496
Investment properties		43,975	43,975
Intangible assets		9,380	10,234
Prepaid land lease payments		207	213
Investments	3	4,215,554	4,140,541
Reinsurance assets	4	9,600	10,015
Insurance receivables		64,836	57,522
Other receivables		57,191	66,863
Tax recoverable		2,251	7,128
Cash and bank balances		47,810	14,091
Total assets		4,559,012	4,458,078
Equity			
Share capital		125,024	100,284
Share premium		-	24,740
Retained profits		105,472	120,876
Merger reserves		40,672	40,672
Available-for-sale reserves		11,586	6,621
Revaluation reserves		6,905	6,905
Total equity		289,659	300,098
Liabilities			
Insurance contract liabilities	5	4,052,170	3,917,012
Deferred tax liabilities		23,003	18,444
Insurance payables		126,992	129,592
Other payables		67,188	92,932
Total liabilities		4,269,353	4,157,980
Total equity and liabilities		4,559,012	4,458,078

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2016 and the accompanying explanatory notes on pages 7 to 24 attached to the unaudited condensed interim financial statements.

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MCIS Insurance Berhad
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Unaudited condensed income statement
For the six-month period ended 30 June 2017

	01.01.2017	01.01.2016
	to	to
Note	30.06.2017	30.06.2016
	RM'000	RM'000
Gross earned premiums	289,294	288,344
Earned premiums ceded to reinsurers	<u>(9,319)</u>	<u>(5,144)</u>
Net earned premiums	<u>279,975</u>	<u>283,200</u>
Investment income	96,165	93,863
Realised gains and losses	(820)	13,708
Fair value gains and losses	5,801	(3,241)
Other operating revenue	<u>140</u>	<u>269</u>
Other revenue	<u>101,286</u>	<u>104,599</u>
Gross benefits and claims paid	(242,114)	(280,918)
Claims ceded to reinsurers	8,454	3,213
Gross change in insurance contract liabilities	(55,294)	(29,937)
Change in insurance contract liabilities ceded to reinsurers	<u>(415)</u>	<u>1,098</u>
Net benefits and claims	<u>(289,369)</u>	<u>(306,544)</u>
Fee and commission expenses	(42,030)	(39,883)
Other operating expenses	156	(6,730)
Management expenses	(40,570)	(41,304)
Taxation of life insurance business	<u>(6,584)</u>	<u>(6,077)</u>
Other expenses	<u>(89,028)</u>	<u>(93,994)</u>
Profit/(Loss) before taxation	2,864	(12,739)
Taxation	<u>(768)</u>	<u>2,194</u>
Net profit/(loss) for the period	<u>2,096</u>	<u>(10,545)</u>
Earnings per share (sen)		
Basic and diluted	6 <u>2.09</u>	<u>(10.52)</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2016 and the accompanying explanatory notes on pages 7 to 24 attached to the unaudited condensed interim financial statements.

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MCIS Insurance Berhad
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Unaudited condensed statement of comprehensive income
For the six-month period ended 30 June 2017

	01.01.2017	01.01.2016
	to	to
	30.06.2017	30.06.2016
	RM'000	RM'000
Net profit/(loss) for the period	2,096	(10,545)
Other comprehensive income:		
Items to be reclassified to the income statement in subsequent periods:		
Available-for-sale ("AFS") reserves:		
Gain on fair value changes of AFS investments	7,049	12,067
Realised gains transferred to the income statement	(535)	(1,474)
Impairment loss reclassified to the income statement	19	1,022
Deferred tax effects on AFS reserves	(1,568)	(2,788)
Other comprehensive income for the period, net of tax	4,965	8,827
Total comprehensive income/(loss) for the period	<u>7,061</u>	<u>(1,718)</u>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2016 and the accompanying explanatory notes on pages 7 to 24 attached to the unaudited condensed interim financial statements.

MCIS Insurance Berhad
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Unaudited condensed statement of changes in equity
For the six-month period ended 30 June 2017

Note	----- Non-distributable -----					----- Distributable -----			Total equity RM'000		
	Share capital RM'000	Share premium RM'000	Merger reserve RM'000	Revaluation reserves of non-participating funds RM'000	Available-for-sale reserves			Retained profits			
					Available-for-sale reserves of non-participating funds RM'000	Available-for-sale reserves of shareholders' fund RM'000	Sub-total RM'000	Unallocated surplus of non-participating funds RM'000		Retained profits of shareholders' fund RM'000	Sub-total RM'000
At 1 January 2016 (As restated)	100,284	24,740	40,672	6,905	(5,966)	7,715	1,749	24,618	157,676	182,294	356,644
Net (loss)/profit for the period	-	-	-	-	-	-	-	(13,346)	2,801	(10,545)	(10,545)
Other comprehensive income	-	-	-	-	6,790	2,037	8,827	-	-	-	8,827
Total comprehensive income/(loss) for the period	-	-	-	-	6,790	2,037	8,827	(13,346)	2,801	(10,545)	(1,718)
Dividends paid during the period	-	-	-	-	-	-	-	-	(90,000)	(90,000)	(90,000)
At 30 June 2016	100,284	24,740	40,672	6,905	824	9,752	10,576	11,272	70,477	81,749	264,926
At 1 January 2017	100,284	24,740	40,672	6,905	(3,238)	9,859	6,621	33,740	87,136	120,876	300,098
Net (loss)/profit for the period	-	-	-	-	-	-	-	(1,043)	3,139	2,096	2,096
Other comprehensive income	-	-	-	-	3,205	1,760	4,965	-	-	-	4,965
Total comprehensive income/(loss) for the period	-	-	-	-	3,205	1,760	4,965	(1,043)	3,139	2,096	7,061
Dividends payable during the period	-	-	-	-	-	-	-	-	(17,500)	(17,500)	(17,500)
Transition to no par value regime*	24,740	(24,740)	-	-	-	-	-	-	-	-	-
At 30 June 2017	125,024	-	40,672	6,905	(33)	11,619	11,586	32,697	72,775	105,472	289,659

* Effective from 31 January 2017, the new Companies Act 2016 ("the Act") abolished the concept of authorised share capital and par value of share capital. Consequently, the credit balance of the share premium becomes part of the Company's share capital pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount for purposes as set out in Section 618(3) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended 31 December 2016 and the accompanying explanatory notes on pages 7 to 24 attached to the unaudited condensed interim financial statements.

MCIS Insurance Berhad
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Unaudited condensed statement of cash flows
For the six-month period ended 30 June 2017

	01.01.2017	01.01.2016
	to	to
	30.06.2017	30.06.2016
	RM'000	RM'000
Profit/(Loss) before taxation	2,864	(12,739)
Taxation of life insurance business	6,584	6,077
Investment income	(96,165)	(93,863)
Realised gains recorded in the income statement	820	(13,708)
Purchases of FVTPL financial assets	(16,393)	(33,424)
Purchases of AFS investments	(704,717)	(1,996,247)
Proceeds from sale of AFS investments	612,778	2,315,525
Proceeds from sale of FVTPL financial assets	11,997	35,728
Decrease in LAR	(6,210)	4,976
Investment income received	97,366	95,748
Non-cash items:		
Depreciation of property and equipment	2,255	3,286
Amortisation of intangible assets	854	882
Amortisation of prepaid land lease payments	6	6
Net amortisation of investments	1,685	2,783
Impairment loss/(write back) on:		
- quoted equity securities	19	6,649
- loans receivable	(50)	65
Changes in working capital:		
Decrease/(Increase) in assets:		
Reinsurance assets	415	(1,098)
Insurance receivables	(7,314)	(17,975)
Other receivables	8,471	(826)
Increase/(Decrease) in liabilities:		
Insurance contract liabilities	88,829	33,179
Insurance payables	(2,600)	42,387
Other payables	(43,244)	(5,338)
Cash generated from operating activities	<u>(41,750)</u>	<u>372,073</u>
Income tax paid	(2,225)	(16,211)
Net cash flows from operating activities	<u>(43,975)</u>	<u>355,862</u>

MCIS Insurance Berhad
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Unaudited condensed statement of cash flows
For the six-month period ended 30 June 2017 (cont'd.)

	01.01.2017	01.01.2016
	to	to
	30.06.2017	30.06.2016
Note	RM'000	RM'000
Investing activities		
Placement monies in relation to the proceeds from disposal of general insurance business*	(83)	(83)
Purchase of property and equipment	<u>(2,967)</u>	<u>(2,190)</u>
Net cash flows from investing activities	<u><u>(3,050)</u></u>	<u><u>(2,273)</u></u>
Financing activity		
Dividends paid	7 -	<u>(90,000)</u>
Net cash flows from financing activity	<u>-</u>	<u>(90,000)</u>
Cash and cash equivalents		
Net (decrease)/increase in cash and cash equivalents	(47,025)	263,589
Cash and cash equivalents at beginning of period	<u>243,674</u>	<u>168,590</u>
Cash and cash equivalents at end of period	<u><u>196,649</u></u>	<u><u>432,179</u></u>
Cash and cash equivalents comprise of:		
Cash and bank balances	47,810	37,235
Less: Cash restricted in use*	<u>(8,357)</u>	<u>(8,370)</u>
	39,453	28,865
Short term deposits with original maturity periods of less than 3 months	<u>157,196</u>	<u>403,314</u>
	<u><u>196,649</u></u>	<u><u>432,179</u></u>

* Cash restricted in use represents placement monies which are encumbered, by virtue of being held to meet any potential indemnity claims in relation to the sale of the general insurance business in previous financial year.

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**Notes to the unaudited condensed interim financial statements
For the six-month period ended 30 June 2017**

1. Basis of preparation

The unaudited condensed interim financial statements of MCIS Insurance Berhad ("the Company") have been prepared in accordance with Malaysian Financial Reporting Standard ("MFRS") 134 - Interim Financial Reporting as issued by the Malaysian Accounting Standards Board ("MASB") and International Accounting Standard ("IAS") 34 - Interim Financial Reporting as issued by International Accounting Standards Board ("IASB").

The unaudited condensed interim financial statements of the Company have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

As at the reporting date, the Company has met the minimum capital adequacy requirements as prescribed under the Risk-Based Capital ("RBC") Framework issued by Bank Negara Malaysia ("BNM").

The unaudited condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2016.

The unaudited condensed interim financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

2. Accounting policies

The accounting policies and presentation adopted by the Company for the condensed interim financial statements are consistent with those adopted in the Company's audited financial statements for the financial year ended 31 December 2016, except as follows:

On 1 January 2017, the Company adopted the following amendments to MFRSs and improvements to standards mandatory for annual financial periods beginning on or after 1 January 2017:

Amendments to MFRSs and improvements to standards mandatory effective for annual financial periods beginning on or after 1 January 2017:

- | |
|---|
| (i) Amendments to MFRS 12 <i>Disclosure of interest in other entities</i> |
| (ii) Amendments to MFRS 107 <i>Statement of Cash Flows</i> : Disclosure Initiatives |
| (iii) Amendments to MFRS 112 <i>Income Taxes</i> : Recognition of Deferred Tax Assets for Unrealised Losses |

The amendments for item (i) is not applicable to the Company. The application of the amendments for item (ii) and (iii) has had no material impact on the disclosures or on the amounts recognised in the unaudited condensed interim financial statements.

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3. Investments

	30.06.2017	31.12.2016
	RM'000	RM'000
Malaysian government securities	1,332,175	1,481,310
Government investment issues	166,888	176,616
Malaysian government guaranteed bonds	633,381	582,115
Unquoted debts securities	1,062,458	932,486
Quoted equity securities	363,869	251,523
Quoted exchange traded funds	28,301	23,030
Unquoted equity securities	2,086	2,086
Quoted unit and property trust funds	130,348	122,251
Unquoted unit funds	24,635	23,310
Deposits with financial institutions	158,119	238,776
Loans receivable	313,294	307,038
	<u>4,215,554</u>	<u>4,140,541</u>

The Company's financial investments are summarised by categories as follows:

Loans and receivables ("LAR")	471,413	545,814
Available-for-sale ("AFS") financial assets	3,606,343	3,468,910
Designated upon initial recognition at fair value through profit or loss ("FVTPL")	137,798	125,817
	<u>4,215,554</u>	<u>4,140,541</u>

(a) LAR

At amortised cost:

Deposits with financial institutions	<u>158,119</u>	<u>238,776</u>
Loans receivable:		
Policy loans	310,512	304,034
Mortgage loans	6,075	6,306
Other loans	496	535
	317,083	310,875
Accumulated impairment loss	(3,789)	(3,837)
	<u>313,294</u>	<u>307,038</u>
	<u>471,413</u>	<u>545,814</u>

Included in deposits with financial institutions of the Company are short term deposits with original maturity periods of less than 3 months amounting to RM157,196,000 (31.12.2016: RM237,857,000), which have been classified as cash and cash equivalents for the purpose of the statement of cash flows.

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3. Investments (cont'd.)

(a) LAR (cont'd.)

The carrying value of the deposits with financial institutions approximates fair value due to the relatively short term maturities. The carrying value of the policy loans, term loan and other loans are reasonable approximations of fair value due to the insignificant impact of discounting.

The fair values of the mortgage loans have been established by comparing current market interest rates for similar financial instruments to the rates offered when the mortgage loans were first recognised together with appropriate market credit adjustments. As there are no significant differences between these rates, the carrying value of mortgage loans approximates fair value as at 30 June 2017 and 31 December 2016.

	30.06.2017	31.12.2016
	RM'000	RM'000
(b) AFS		
At fair value:		
Malaysian government securities	1,321,363	1,471,254
Government investment issues	163,713	172,457
Malaysian government guaranteed bonds	633,381	582,115
Unquoted debt securities	1,048,373	920,039
Quoted equity securities	312,169	202,109
Quoted unit and property trust funds	125,258	118,850
	<u>3,604,257</u>	<u>3,466,824</u>
At cost less impairment:		
Unquoted equity securities (net of impairment loss of RM61,000 (31.12.2016: RM61,000))	2,086	2,086
	<u>3,606,343</u>	<u>3,468,910</u>

(c) FVTPL

**Financial assets designated upon initial
recognition at FVTPL:**

Malaysian government securities	10,812	10,056
Government investment issues	3,175	4,159
Unquoted debt securities	14,085	12,447
Quoted equity securities	51,700	49,414
Quoted exchange trade funds	28,301	23,030
Quoted unit and property trust funds	5,090	3,401
Unquoted unit funds	24,635	23,310
	<u>137,798</u>	<u>125,817</u>

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3. Investments (cont'd.)

Included in the quoted category are financial instruments that are measured in whole or in part by reference to quoted market bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange.

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market, instruments with fair values based on broker quotes, investment in unit and property trusts with fair values obtained via fund managers and instruments that are valued using the Company's own models whereby the majority of assumptions are market observable.

For the Company's unquoted equity securities, fair value cannot be measured reliably. These financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment, less impairment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

4. Reinsurance assets

	30.06.2017	31.12.2016
	RM'000	RM'000
Reinsurance of insurance contracts (Note 5(i))	9,600	10,015
	<u>9,600</u>	<u>10,015</u>

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5. Insurance contract liabilities

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

(i) Life insurance contract liabilities

	←----- 30.06.2017 ----->			←----- 31.12.2016 ----->		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM'000	(Note 4) RM'000	RM'000	RM'000	(Note 4) RM'000	RM'000
Provision for benefits and claims	105,817	(1,830)	103,987	102,950	(2,030)	100,920
Actuarial liabilities - Participating fund	3,021,735	(1,436)	3,020,299	2,972,760	(1,284)	2,971,476
Actuarial liabilities - Non participating fund	300,681	(6,334)	294,347	294,046	(6,701)	287,345
	3,322,416	(7,770)	3,314,646	3,266,806	(7,985)	3,258,821
Participating fund unallocated surplus	384,109	-	384,109	360,226	-	360,226
Participating fund AFS reserves	10,125	-	10,125	(30,405)	-	(30,405)
Participating fund asset revaluation reserves	79,500	-	79,500	79,500	-	79,500
Net asset value ("NAV") attributable to unitholders	150,203	-	150,203	137,935	-	137,935
	<u>4,052,170</u>	<u>(9,600)</u>	<u>4,042,570</u>	<u>3,917,012</u>	<u>(10,015)</u>	<u>3,906,997</u>

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5. Insurance contract liabilities (cont'd.)

(ii) Movements of life insurance contract liabilities

	Provision for benefits and claims RM'000	Actuarial liabilities RM'000	Participating fund unallocated surplus RM'000	Non Participating fund unallocated surplus RM'000	Participating fund AFS reserves RM'000	Participating fund asset revaluation reserves RM'000	NAV attributable to unitholders RM'000	Gross liabilities RM'000	Reinsurance RM'000	Net liabilities RM'000
30 June 2017										
As at 1 January 2017	102,950	3,266,806	360,226	-	(30,405)	79,500	137,935	3,917,012	(10,015)	3,906,997
Net earned premiums	-	-	198,504	66,147	-	-	15,324	279,975	-	279,975
Other revenue	-	-	78,550	8,333	-	-	8,729	95,612	-	95,612
Net benefits and claims	2,867	-	(186,075)	(47,839)	-	-	(11,067)	(242,114)	8,454	(233,660)
Other expenses	-	-	(53,132)	(27,855)	-	-	(20)	(81,007)	-	(81,007)
Policy movement	-	23,781	(24,916)	1,135	-	-	-	-	-	-
Other movement	-	-	39,334	-	-	-	-	39,334	-	39,334
Interest rate	-	5,774	-	(5,774)	-	-	-	-	-	-
Adjustments due to changes in assumptions:										
- Model change	-	3,269	(1,852)	(1,417)	-	-	-	-	-	-
- Others	-	22,786	(21,229)	6,482	-	-	-	8,039	(8,039)	-
Changes in AFS reserves	-	-	-	-	43,271	-	-	43,271	-	43,271
Taxation on AFS reserves	-	-	-	-	(2,741)	-	-	(2,741)	-	(2,741)
Taxation on taxable investment income	-	-	(5,301)	(585)	-	-	(698)	(6,584)	-	(6,584)
Reclassification of unallocated surplus of non-participating funds to shareholders' fund	-	-	-	1,373	-	-	-	1,373	-	1,373
As at 30 June 2017	105,817	3,322,416	384,109	-	10,125	79,500	150,203	4,052,170	(9,600)	4,042,570

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5. Insurance contract liabilities (cont'd.)

(ii) Movements of life insurance contract liabilities (cont'd.)

	Provision for benefits and claims RM'000	Actuarial liabilities RM'000	Participating fund unallocated surplus RM'000	Non Participating fund unallocated surplus RM'000	Participating fund AFS reserves RM'000	Participating fund asset revaluation reserves RM'000	NAV attributable to unitholders RM'000	Gross liabilities RM'000	Reinsurance RM'000	Net liabilities RM'000
31 December 2017										
As at 1 January 2016	80,621	3,194,000	427,174	-	(60,751)	78,013	134,267	3,853,324	(8,471)	3,844,853
Net earned premiums	-	-	392,235	133,037	-	-	27,939	553,211	-	553,211
Other revenue	-	-	186,154	18,854	-	-	3,018	208,026	-	208,026
Net benefits and claims	22,326	-	(410,776)	(106,806)	-	-	(26,726)	(521,982)	4,353	(517,629)
Other expenses	-	-	(120,489)	(56,327)	-	-	(39)	(176,855)	-	(176,855)
Policy movement	-	58,718	(61,745)	3,027	-	-	-	-	-	-
Other movement	3	(3)	-	-	-	-	(283)	(283)	-	(283)
Interest rate	-	38,466	(39,419)	953	-	-	-	-	-	-
Adjustments due to changes in assumptions:										
- Model change	-	(3,945)	4,348	(403)	-	-	-	-	-	-
- Others	-	(20,430)	5,225	21,102	-	-	-	5,897	(5,897)	-
Changes in AFS reserves	-	-	-	-	32,504	-	-	32,504	-	32,504
Taxation on AFS reserves	-	-	-	-	(2,158)	-	-	(2,158)	-	(2,158)
Changes in asset revaluation reserves	-	-	-	-	-	1,616	-	1,616	-	1,616
Taxation on asset revaluation reserves	-	-	-	-	-	(129)	-	(129)	-	(129)
Taxation on taxable investment income	-	-	(6,561)	(1,435)	-	-	(241)	(8,237)	-	(8,237)
Participating fund surplus transferred to shareholders' fund	-	-	(15,920)	-	-	-	-	(15,920)	-	(15,920)
Reclassification of unallocated surplus of non-participating funds to shareholders' fund	-	-	-	(12,002)	-	-	-	(12,002)	-	(12,002)
As at 31 December 2016	102,950	3,266,806	360,226	-	(30,405)	79,500	137,935	3,917,012	(10,015)	3,906,997

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6. Earnings per share

Earnings per share is calculated by dividing profit/(loss) for the financial period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial period.

	01.01.2017 to 30.06.2017	01.01.2016 to 30.06.2016
Profit/(Loss) attributable to ordinary equity holders (RM'000)	2,096	(10,545)
Weighted average number of shares in issue ('000)	100,284	100,284
Basic and diluted earnings per share (sen)	<u>2.09</u>	<u>(10.52)</u>

There were no potential dilutive ordinary shares as at the reporting date.

There have been no other transactions involving ordinary shares between the reporting date and the date of issuance of these unaudited condensed interim financial statements.

7. Dividends

	Amount RM'000	Dividend per share Sen
Dividend approved during year 2017 in respect of the financial year ended 31 December 2016		
Final single tier dividend payable on 3 July 2017	<u>17,500</u>	<u>17.45</u>
Dividend paid during year 2016 in respect of the financial year ended 31 December 2015		
Final single tier dividend paid on 24 June 2016	<u>90,000</u>	<u>89.75</u>

8. Capital commitments

	30.06.2017 RM'000	31.12.2016 RM'000
Approved and contracted for:		
Property and equipment	869	-
Intangible assets	<u>3,638</u>	<u>4,227</u>
	<u>4,507</u>	<u>4,227</u>
Approved but not contracted for:		
Property and equipment	2,834	4,051
Intangible assets	<u>3,743</u>	<u>3,897</u>
	<u>6,577</u>	<u>7,948</u>

9. Significant related party disclosures

The related parties and their relationship with the Company as at 30 June 2017 are as follows:

Name	Relationship
Sanlam Emerging Markets Proprietary Limited ("SEM")	Immediate holding company
Koperasi MCIS Berhad	Corporate shareholder
Sanlam Life Insurance Limited	Related company of SEM
National Land Finance Co-operative Society Limited	A Co-operative in which a former director of the Company was also a director

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9. Significant related party disclosures (cont'd.)

The Directors are of the opinion that the related party transactions were carried out on terms and conditions no more favourable than those available on similar transactions with unrelated parties.

	01.01.2017 to 30.06.2017 RM'000	01.01.2016 to 30.06.2016 RM'000
Transactions with related parties:		
(i) Interest income received from:		
National Land Finance Co-operative Society Limited	-	83
(ii) Rental income received from:		
Koperasi MCIS Berhad	196	196
(iii) Market research expenses reimbursable from:		
Sanlam Life Insurance Limited	312	-
(iv) Reimbursable costs to:		
SEM	(47)	-
Sanlam Life Insurance Limited	-	(25)
	(47)	(25)
(v) Directors' fees and allowances to:		
SEM	(121)	(208)
	30.06.2017 RM'000	31.12.2016 RM'000
Balances with related parties:		
(ii) Directors' fees and allowances to:		
SEM	-	94
(iii) Reimbursable costs to:		
Sanlam Life Insurance Limited	-	70

10. Regulatory capital requirement

The capital structure of the Company as prescribed under the RBC Framework is provided below:

	30.06.2017 RM'000	31.12.2016 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	125,024	100,284
Reserves, including retained earnings	1,016,299	1,059,933
	1,141,323	1,160,217
Tier 2 Capital		
Eligible reserves	97,941	53,531
Deduction: Intangible assets, deferred tax assets and cash restricted in use	(17,999)	(21,758)
Total capital available	1,221,265	1,191,990

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11. Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets:

	Date of valuation	Fair value measurement using			Total fair value RM'000
		Level 1 - Quoted market price in active market RM'000	Level 2 - Significant observable inputs RM'000	Level 3 - Significant unobservable inputs RM'000	
30 June 2017					
Assets measured at fair value:					
Investment properties	March/December 2016	-	-	43,975	43,975
AFS financial assets (Note 3(b)):					
Malaysian government securities	30 June 2017	-	1,321,363	-	1,321,363
Government investment issues	30 June 2017	-	163,713	-	163,713
Malaysian government guaranteed bonds	30 June 2017	-	633,381	-	633,381
Unquoted debt securities	30 June 2017	-	1,048,373	-	1,048,373
Quoted equity securities	30 June 2017	312,169	-	-	312,169
Quoted unit and property trust funds	30 June 2017	125,258	-	-	125,258
		<u>437,427</u>	<u>3,166,830</u>	<u>-</u>	<u>3,604,257</u>
Financial assets designated at FVTPL (Note 3(c)):					
Malaysian government securities	30 June 2017	-	10,812	-	10,812
Government investment issues	30 June 2017	-	3,175	-	3,175
Unquoted debt securities	30 June 2017	-	14,085	-	14,085
Quoted equity securities	30 June 2017	51,700	-	-	51,700
Quoted exchange traded funds	30 June 2017	28,301	-	-	28,301
Quoted unit and property trust funds	30 June 2017	5,090	-	-	5,090
Unquoted unit funds	30 June 2017	-	24,635	-	24,635
		<u>85,091</u>	<u>52,707</u>	<u>-</u>	<u>137,798</u>
Revalued property and equipment	*	-	-	95,657	95,657
		<u>522,518</u>	<u>3,219,537</u>	<u>139,632</u>	<u>3,881,687</u>

* The properties had been revalued at various dates since November 2014 to December 2016 for different properties.

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11. Fair value measurement (cont'd.)

31 December 2016	Date of valuation	Fair value measurement using			
		Level 1 - Quoted market price in active market RM'000	Level 2 - Significant observable inputs RM'000	Level 3 - Significant unobservable inputs RM'000	Total fair value RM'000
Assets measured at fair value:					
Investment properties	March/December 2016	-	-	43,975	43,975
AFS financial assets (Note 3(b)):					
Malaysian government securities	31 December 2016	-	1,471,254	-	1,471,254
Government investment issues	31 December 2016	-	172,457	-	172,457
Malaysian government guaranteed bonds	31 December 2016	-	582,115	-	582,115
Unquoted debt securities	31 December 2016	-	920,039	-	920,039
Quoted equity securities	31 December 2016	202,109	-	-	202,109
Quoted unit and property trust funds	31 December 2016	118,850	-	-	118,850
		<u>320,959</u>	<u>3,145,865</u>	<u>-</u>	<u>3,466,824</u>
Financial assets designated at FVTPL (Note 3(c)):					
Malaysian government securities	31 December 2016	-	10,056	-	10,056
Government investment issues	31 December 2016	-	4,159	-	4,159
Unquoted debt securities	31 December 2016	-	12,447	-	12,447
Quoted equity securities	31 December 2016	49,414	-	-	49,414
Quoted exchange traded funds	31 December 2016	23,030	-	-	23,030
Quoted unit and property trust funds	31 December 2016	3,401	-	-	3,401
Unquoted unit funds	31 December 2016	-	23,310	-	23,310
		<u>75,845</u>	<u>49,972</u>	<u>-</u>	<u>125,817</u>
Revalued property and equipment	*	-	-	96,926	96,926
		<u>396,804</u>	<u>3,195,837</u>	<u>140,901</u>	<u>3,733,542</u>

* The properties had been revalued at various dates since November 2014 to December 2016 for different properties.

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11. Fair value measurement (cont'd.)

The Company categorises its fair value measurements in accordance to the fair value hierarchy which is based on the priority of inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets, a lower priority to valuation techniques based on observable inputs and the lowest priority to valuation techniques based on unobservable inputs. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

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 - Quoted prices in active markets

Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets that the Company 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 - Valuation technique supported by observable inputs

Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liabilities, either directly or indirectly. These include quoted prices for similar financial assets and financial liabilities in active markets, quoted prices for identical or similar financial assets and financial liabilities in inactive markets, inputs that are observable that are no prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data.

Level 3 - Valuation technique supported by unobservable inputs

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

There has been no transfers of financial assets between Level 1 and Level 2 during the six-month period/year ended 30 June 2017 and 31 December 2016.

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11. Fair value measurement (cont'd.)

Valuation methods and assumptions for properties and investment properties

The revalued land and buildings consist of office buildings, shop offices, shop houses and an apartment, which are located in various states in Malaysia.

The fair value of the properties was determined by using sales comparison method, other than fair value of an office building which was determined by using the income capitalisation method. The sales comparison method entails comparing the property with comparable properties which have been sold or are being offered for sale, adjusted for differences in the nature, location, size, condition or other relevant characteristics of the specific property. Under the income capitalisation method, the gross income receivable from the property and the outgoings and expenditures such as repair and maintenance, assessment rates, insurance, etc, are projected in arriving at the estimated net income. The estimated net income is then capitalised by using an appropriate rate of interest (yield) reflecting the security of future income arising from the use of the said property.

The properties' fair values are based on valuations performed by PPC International Sdn. Bhd. and Raine & Horne International Zaki + Partners Sdn. Bhd for different properties. Both companies are registered independent valuers.

The Company has determined that the highest and best use of the properties is their current use.

Reconciliation of Level 3 fair value measurement:

Properties:	Apartment	Shop office/ shop house	Office building	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	291	25,476	97,261	123,028
Revaluation surplus of participating fund recognised in insurance contract liabilities	-	877	739	1,616
Transfer to investment properties	-	(5,028)	(19,667)	(24,695)
Depreciation recognised in profit or loss under management expenses	(9)	(367)	(2,647)	(3,023)
At 31 December 2016 / 1 January 2017	282	20,958	75,686	96,926
Depreciation recognised in profit or loss under management expenses	(5)	(145)	(1,119)	(1,269)
At 30 June 2017	277	20,813	74,567	95,657
Investment properties	Agriculture land	Shop office/ shop house	Office building	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	1,100	7,080	8,360	16,540
Transfer from property and equipment	-	5,028	19,667	24,695
Fair value gain recognised in the income statement under fair value gains and losses	100	-	2,640	2,740
At 31 December 2016 / 1 January 2017 / 30 June 2017	1,200	12,108	30,667	43,975

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11. Fair value measurement (cont'd.)

Description of valuation techniques used and key inputs to valuation on the properties are stated below:

Revalued properties:

Type of property	Valuation techniques	Key inputs	Range (average)	
Apartment	Comparison method	Price per square foot	Building	RM241
Multi-storey shop office /shop house	Comparison method	Price per square foot	Land Building	RM1,630 RM81
7 ½-storey office building	Comparison method	Price per square foot	Land Building	RM198 RM95
A 10 and 7 storey office buildings	Income capitalisation method	Estimated market rent per square foot per month Vacancy rate Yield or discount rate		RM3.00 - RM5.00 5% 5.5% & 6%

Significant increases/(decreases) in unobservable inputs in isolation would result in a significantly higher/(lower) fair value of the properties.

Description of valuation techniques used and key inputs to valuation on investment properties are stated below:

Investment properties:

Type of property	Valuation technique	Key inputs	Range (average)	
Agriculture land	Comparison method	Price per square foot	Land	RM2.80
Multi-storey shop office /shop house	Comparison method	Price per square foot	Land Building	RM2,741 RM80
8-storey office building	Comparison method	Price per square foot	Land and building	RM338
A 3-storey retail/ office building	Income capitalisation method	Estimated market rent per square foot per month Vacancy rate Yield or discount rate		RM3.50 - RM6.00 10% 6%

Significant increases/(decreases) in unobservable inputs in isolation would result in a significantly higher/(lower) fair value of the properties.

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12. Insurance funds

The Company's activities are organised by funds and segregated into the Shareholders' and Life funds in accordance with the Financial Services Act, 2013. The condensed statement of financial position, income statement and statement of cash flows by funds are presented as follows:

Statements of financial position by funds

As at 30 June 2017

	Shareholders' funds		Life funds		Total	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Property and equipment	600	14	107,608	107,482	108,208	107,496
Investment properties	-	-	43,975	43,975	43,975	43,975
Intangible assets	-	-	9,380	10,234	9,380	10,234
Prepaid land lease payments	-	-	207	213	207	213
Investments*	245,512	242,239	3,978,440	3,906,086	4,215,554	4,140,541
Reinsurance assets	-	-	9,600	10,015	9,600	10,015
Insurance receivables	-	-	64,836	57,522	64,836	57,522
Other receivables*	53,538	66,723	55,788	65,097	57,191	66,863
Tax recoverable	(2,057)	(1,323)	4,308	8,451	2,251	7,128
Cash and bank balances	26,288	8,317	21,522	5,774	47,810	14,091
Total assets	323,881	315,970	4,295,664	4,214,849	4,559,012	4,458,078
Total equity	289,659	300,098	-	-	289,659	300,098
Liabilities						
Insurance contract liabilities*	-	-	4,059,954	3,924,796	4,052,170	3,917,012
Deferred tax liabilities	15,760	14,528	7,243	3,916	23,003	18,444
Insurance payables	-	-	126,992	129,592	126,992	129,592
Other payables*	18,462	1,344	101,475	156,545	67,188	92,932
Total liabilities	34,222	15,872	4,295,664	4,214,849	4,269,353	4,157,980
Total equity and liabilities	323,881	315,970	4,295,664	4,214,849	4,559,012	4,458,078

* Included in investments, other receivables, insurance contract liabilities and other payables are inter-fund balances which are eliminated in presenting the Company's total balances.

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12. Insurance funds (cont'd.)

Income statement by funds

For the six-month period ended 30 June 2017

	Shareholders' Funds		Life Funds		Total	
	01.01.2017 to 30.06.2017 RM'000	01.01.2016 to 30.06.2016 RM'000	01.01.2017 to 30.06.2017 RM'000	01.01.2016 to 30.06.2016 RM'000	01.01.2017 to 30.06.2017 RM'000	01.01.2016 to 30.06.2016 RM'000
Continuing operations:						
Gross earned premiums	-	-	289,294	288,344	289,294	288,344
Earned premiums ceded to reinsurers	-	-	(9,319)	(5,144)	(9,319)	(5,144)
Net earned premiums	-	-	279,975	283,200	279,975	283,200
Investment income	5,309	6,149	90,856	87,714	96,165	93,863
Realised gains and losses	364	1,340	(1,184)	12,368	(820)	13,708
Fair value gains and losses	-	-	5,801	(3,241)	5,801	(3,241)
Other operating revenue	1	-	139	269	140	269
Other revenue	5,674	7,489	95,612	97,110	101,286	104,599
Gross benefits and claims paid	-	-	(242,114)	(280,918)	(242,114)	(280,918)
Claims ceded to reinsurers	-	-	8,454	3,213	8,454	3,213
Gross change in contract liabilities	-	-	(55,294)	(29,937)	(55,294)	(29,937)
Change in contract liabilities ceded to reinsurers	-	-	(415)	1,098	(415)	1,098
Net benefits and claims	-	-	(289,369)	(306,544)	(289,369)	(306,544)
Fee and commission expenses	-	-	(42,030)	(39,883)	(42,030)	(39,883)
Other operating expenses	(31)	(406)	187	(6,324)	156	(6,730)
Management expenses	(1,406)	(2,261)	(39,164)	(39,043)	(40,570)	(41,304)
Taxation of life insurance business	-	-	(6,584)	(6,077)	(6,584)	(6,077)
Other expenses	(1,437)	(2,667)	(87,591)	(91,327)	(89,028)	(93,994)
Profit/(Loss) from operations	4,237	4,822	(1,373)	(17,561)	2,864	(12,739)
Reclassification of unallocated surplus of non-participating funds to shareholders' fund	(1,373)	(17,561)	1,373	17,561	-	-
Profit/(Loss) before taxation	2,864	(12,739)	-	-	2,864	(12,739)
Taxation	(768)	2,194	-	-	(768)	2,194
Net (loss)/profit for the period	2,096	(10,545)	-	-	2,096	(10,545)

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12. Insurance funds (cont'd.)

Statements of cash flows by funds
For the six-month period ended 30 June 2017

	Shareholders' Funds		Life Funds		Total	
	01.01.2017 to 30.06.2017 RM'000	01.01.2016 to 30.06.2016 RM'000	01.01.2017 to 30.06.2017 RM'000	01.01.2016 to 30.06.2016 RM'000	01.01.2017 to 30.06.2017 RM'000	01.01.2016 to 30.06.2016 RM'000
Cash flows from:						
Operating activities	3,802	144,451	(47,777)	211,411	(43,975)	355,862
Investing activities	(83)	(83)	(2,967)	(2,190)	(3,050)	(2,273)
Financing activities	-	(90,000)	-	-	-	(90,000)
Net increase/(decrease) in cash and cash equivalents	3,719	54,368	(50,744)	209,221	(47,025)	263,589
At beginning of period	49,779	20,447	193,895	148,143	243,674	168,590
At end of period	53,498	74,815	143,151	357,364	196,649	432,179
Cash and cash equivalents comprise of:						
Cash and bank balances	26,288	8,367	21,522	28,868	47,810	37,235
Less: Cash restricted in use	(8,357)	(8,370)	-	-	(8,357)	(8,370)
	17,931	(3)	21,522	28,868	39,453	28,865
Short term deposits with original maturity periods of less than 3 months	35,567	74,818	121,629	328,496	157,196	403,314
	53,498	74,815	143,151	357,364	196,649	432,179

13. Seasonal or cyclical factors

The operations of the Company were not materially affected by any seasonal or cyclical fluctuations during the interim financial period.

14. Unusual items

There were no other unusual items affecting assets, liabilities, equity, net income or cash flows for the current financial period ended 30 June 2017.

15. Change in estimates

There were no changes in the basis used for accounting estimates in respect of amounts reported in prior financial periods that would have a material effect on the unaudited condensed interim financial statements.

16. Issues, repurchases, and repayments of debts and equity securities

There was no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the interim financial period.

17. Material events subsequent to the end of the period

There was no material event subsequent to the end of the interim reporting period that has not been reported in the unaudited condensed interim financial statements.

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18. Contingent liabilities

- (i) On 1 December 2014, Fairfax Financial Holdings Limited through its wholly-owned subsidiary, The Pacific Insurance Berhad ("Pacific Insurance"), entered into a business transfer agreement with the Company and Koperasi MCIS Berhad to acquire the general insurance business of the Company. The transfer of GI business was completed on 1 March 2015.

Under the terms of business transfer agreement, in the event that the cumulative claims amounts paid by Pacific Insurance over a 5-year period in relation to loss events that occurred prior to the transfer date (i.e. 1 March 2015) in respect of policies transferred exceeds the net claims liability reserves of the GI business transferred to Pacific Insurance ("the Excess"), the placement monies will be used to indemnify Pacific Insurance on the Excess. Should the placement monies of RM8.4 million (31.12.2016: RM8.3 million) as disclosed in statement of cash flows (i.e. "cash restricted in use") be insufficient to pay the Excess, the Company shall pay Pacific Insurance the Excess over and above the placement monies amount provided always that the total indemnity for the Excess shall not exceed RM16.3 million. As at 30 June 2017, the cumulative claims amounts in relation to loss events that occurred prior to the transfer date were within the net claims liability reserves transferred, hence no provision is necessary.

- (ii) In March 2015, the Company instituted legal proceedings against a former tenant of one of the Company's properties to seek recovery of outstanding rentals, utilities charges, reinstatement costs and corresponding late payment charges. The entire proceeding was settled in court via Consent Judgment dated 20 April 2017 in favour of the Company.

Except for the above, there were no other contingent liabilities as at the date of this report.

19. Effect of changes in composition of the Company

There were no changes in the composition of the Company during the interim period.