

LPI CAPITAL BHD
Condensed Consolidated Statement of Profit or Loss For The Quarter Ended 30 June 2017 - Unaudited

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended 30.06.2017 RM'000	Preceding Year Corresponding Quarter Ended 30.06.2016 RM'000	Current Year To Date Ended 30.06.2017 RM'000	Preceding Year Corresponding Period Ended 30.06.2016 RM'000
Operating revenue	352,710	339,250	700,350	659,811
Gross written premiums	307,218	301,169	722,873	702,890
Change in unearned premiums provision	29,519	23,166	(67,917)	(88,535)
Gross earned premiums	336,737	324,335	654,956	614,355
Gross written premiums ceded to reinsurers	(99,708)	(116,481)	(278,303)	(305,906)
Change in unearned premiums provision	(24,551)	(5,498)	14,954	49,373
Premiums ceded to reinsurers	(124,259)	(121,979)	(263,349)	(256,533)
Net earned premiums	212,478	202,356	391,607	357,822
Investment income	15,973	14,915	45,394	45,456
Realised gains and losses	2,472	150,356	2,811	150,356
Fair value gains and losses	-	(806)	-	(806)
Commission income	26,712	25,340	57,062	59,420
Other operating income	1,240	1,808	2,071	4,137
Other income	46,397	191,613	107,338	258,563
Gross claims paid	(124,642)	(131,136)	(225,836)	(237,731)
Claims ceded to reinsurers	49,466	57,890	78,756	99,404
Gross change in contract liabilities	9,696	15,816	(5,605)	(23,399)
Change in contract liabilities ceded to reinsurers	(18,887)	(23,351)	(3,048)	13,895
Net claims incurred	(84,367)	(80,781)	(155,733)	(147,831)
Commission expense	(38,383)	(36,868)	(73,831)	(69,546)
Management expenses	(47,424)	(44,202)	(92,904)	(85,789)
Other expenses	(85,807)	(81,070)	(166,735)	(155,335)
Operating profit	88,701	232,118	176,477	313,219
Share of profit after tax of equity accounted associated company	515	356	1,533	1,436
Profit before tax	89,216	232,474	178,010	314,655
Tax expense	(21,152)	(19,855)	(39,383)	(36,650)
Profit for the period	68,064	212,619	138,627	278,005
Profit attributable to:				
Owners of the Company	68,064	212,619	138,627	278,005
Earnings per ordinary share (sen)				
- Basic	20.51	64.04	41.76	83.74
- Diluted	N/A	N/A	N/A	N/A

N/A - *Not Applicable.*

Note : The Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the Annual Financial Report for the year ended 31 December 2016.

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Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For The Quarter Ended 30 June 2017 - Unaudited

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended 30.06.2017 RM'000	Preceding Year Corresponding Quarter Ended 30.06.2016 RM'000	Current Year To Date Ended 30.06.2017 RM'000	Preceding Year Corresponding Period Ended 30.06.2016 RM'000
Profit for the period	68,064	212,619	138,627	278,005
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences for foreign operation	(3,315)	2,093	(1,506)	(2,121)
Fair value of available-for-sale financial assets				
- Gain arising during the period	19,636	29,311	28,476	43,537
- Reclassification to profit or loss	(2,513)	(149,550)	(2,513)	(149,550)
	17,123	(120,239)	25,963	(106,013)
	13,808	(118,146)	24,457	(108,134)
Tax effect on net gain / (loss) on fair value of available-for-sale financial assets	217	(92)	120	(69)
Total other comprehensive income / (loss) for the period, net of tax	14,025	(118,238)	24,577	(108,203)
Total comprehensive income for the period attributable to owners of the Company	82,089	94,381	163,204	169,802

Note : The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Annual Financial Report for the year ended 31 December 2016.

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Condensed Consolidated Statement Of Financial Position As At 30 June 2017 - Unaudited

	As At 30.06.2017	As At 31.12.2016
	RM'000	RM'000
Assets		
Plant and equipment	14,036	13,042
Investment properties	27,810	27,900
Investment in associated company	27,186	26,796
Other investments	1,144,759	1,132,982
Available-for-sale financial assets	906,097	889,779
Held-to-maturity financial assets	238,662	243,203
Reinsurance assets	696,759	685,035
Loans and receivables, excluding insurance receivables	1,277,406	1,256,662
Insurance receivables	179,800	150,728
Deferred acquisition costs	33,406	30,451
Cash and cash equivalents	363,231	332,517
Total assets	3,764,393	3,656,113
Equity		
Share capital	331,986	331,986
Reserves	1,485,942	1,505,330
Total equity	1,817,928	1,837,316
Liabilities		
Insurance contract liabilities	1,682,487	1,609,458
Deferred tax liabilities	968	944
Insurance payables	118,385	79,804
Other payables	115,618	105,374
Tax payables	29,007	23,217
Total liabilities	1,946,465	1,818,797
Total equity and liabilities	3,764,393	3,656,113

Note : The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Report for the year ended 31 December 2016.

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Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30 June 2017 - Unaudited

	← Non-distributable →			Distributable		Total RM'000
	Share capital RM'000	Share premium RM'000	Foreign currency translation reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000	
<u>6 Months Period Ended 30 June 2017</u>						
Balance as at 1 January 2017	331,986	6,258	27,073	713,601	758,398	1,837,316
Foreign currency translation differences for foreign operation	-	-	(1,506)	-	-	(1,506)
Fair value of available-for-sale financial assets	-	-	-	26,083	-	26,083
Total other comprehensive (loss) / income for the period	-	-	(1,506)	26,083	-	24,577
Profit for the period	-	-	-	-	138,627	138,627
Total comprehensive (loss) / income for the period	-	-	(1,506)	26,083	138,627	163,204
Distribution to owners of the Company						
- Dividends to owners of the Company	-	-	-	-	(182,592)	(182,592)
Total transaction with owners of the Company	-	-	-	-	(182,592)	(182,592)
Balance as at 30 June 2017	331,986	6,258	25,567	739,684	714,433	1,817,928

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Condensed Consolidated Statement Of Changes In Equity For The Period Ended 30 June 2017 - Unaudited (cont'd)

	← Non-distributable →			Distributable		
	Share capital RM'000	Share premium RM'000	Foreign currency translation reserve RM'000	Fair value reserve RM'000	Retained earnings RM'000	Total RM'000
<u>6 Months Period Ended 30 June 2016</u>						
Balance as at 1 January 2016	331,986	6,258	24,816	805,377	570,164	1,738,601
Foreign currency translation differences for foreign operation	-	-	(2,121)	-	-	(2,121)
Fair value of available-for-sale financial assets	-	-	-	(106,082)	-	(106,082)
Total other comprehensive loss for the period	-	-	(2,121)	(106,082)	-	(108,203)
Profit for the period	-	-	-	-	278,005	278,005
Total comprehensive (loss) / income for the period	-	-	(2,121)	(106,082)	278,005	169,802
Distribution to owners of the Company						
- Dividends to owners of the Company	-	-	-	-	(165,993)	(165,993)
Total transaction with owners of the Company	-	-	-	-	(165,993)	(165,993)
Balance as at 30 June 2016	<u>331,986</u>	<u>6,258</u>	<u>22,695</u>	<u>699,295</u>	<u>682,176</u>	<u>1,742,410</u>

Note: The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the year ended 31 December 2016.

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Condensed Consolidated Statement of Cash Flow For The Period Ended 30 June 2017 - Unaudited

	Current Year To Date Ended 30.06.2017 RM'000	Preceding Year Corresponding Period Ended 30.06.2016 RM'000
Operating activities		
Profit before tax	178,010	314,655
Investment income	(45,394)	(45,456)
Realised gains recorded in profit or loss	(2,811)	(150,356)
Fair value losses recorded in profit or loss	-	806
Share of profit of equity accounted associated company	(1,533)	(1,436)
Purchase of available-for-sale financial assets	(280)	(8,171)
Proceeds from disposal of available-for-sale financial assets	12,416	185,059
Purchase of held-to-maturity financial assets	(25,000)	(13,076)
Maturity of held-to-maturity financial assets	29,500	32,280
Non-cash items:		
Depreciation of plant and equipment	1,489	1,784
Fixed assets written off	3	-
Unrealised foreign exchange loss	253	101
Changes in working capital:		
Increase in loans and receivables	(20,953)	(587,244)
Increase in reinsurance assets	(11,906)	(63,268)
Increase in insurance receivables	(29,105)	(54,046)
(Increase) / Decrease in deferred acquisition costs	(2,950)	3,898
Increase in insurance contract liabilities	73,521	111,934
Increase in insurance payables	38,590	29,735
Increase in other payables	10,302	12,793
Cash generated from / (used in) operating activities	204,152	(230,008)
Dividend income received	15,265	19,970
Interest income received	29,658	24,943
Rental income on investment property received	483	494
Income tax paid	(33,446)	(28,346)
Net cash flows generated from / (used in) operating activities	216,112	(212,947)

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Condensed Consolidated Statement of Cash Flow For The Period Ended 30 June 2017 - Unaudited (cont'd)

	Current Year To Date Ended 30.06.2017 RM'000	Preceding Year Corresponding Period Ended 30.06.2016 RM'000
Investing activities		
Proceeds from disposal of plant and equipment	324	-
Purchase of plant and equipment	(2,514)	(321)
Net cash flows used in investing activities	<u>(2,190)</u>	<u>(321)</u>
Financing activities		
Dividends paid to owners of the Company	(182,592)	(165,993)
Net cash flows used in financing activities	<u>(182,592)</u>	<u>(165,993)</u>
Net increase / (decrease) in cash and cash equivalents	31,330	(379,261)
Cash and cash equivalents at beginning of year	332,517	952,253
Effect of movement in exchange rates	(616)	(635)
Cash and cash equivalents at end of period	<u>363,231</u>	<u>572,357</u>

Note : The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Report for the year ended 31 December 2016.

**PART A – NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
PURSUANT TO MALAYSIAN FINANCIAL REPORTING
STANDARD (“MFRS”) 134**

A1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with MFRS 134, Interim Financial Reporting in Malaysia and with IAS 34, Interim Financial Reporting, and Paragraph 9.22 of the Bursa Malaysia Securities Berhad Listing Requirements. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2016.

The accounting policies and presentation 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 2016, except for the adoption of the following:

MFRSs/ Amendments/Interpretations	Effective date
Amendments to MFRS 107, <i>Statement of Cash Flows Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112, <i>Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Amendments to MFRS 12, <i>Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)</i>	1 January 2017

The initial application of the abovementioned standards, amendments and interpretations did not have any material impacts to the current and prior periods financial statements upon their first adoption.

A2. COMMENTS ON SEASONALITY OR CYCLICALITY

The Group’s insurance business operations were not significantly affected by seasonality or cyclical factors for the period under review.

However, for the investment holding segment, the dividend income generated from the dividend stocks are subject to timing of the payment of dividend which may fluctuate when comparing quarter to quarter. The Group’s investment income is seasonally stronger in 1st Quarter and 3rd Quarter.

A3. UNUSUAL ITEM AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

There were no items affecting assets, liabilities, equity, net income, or cash flows which are unusual because of their nature, size, or incidence in the current interim period ended 30 June 2017.

A4. CHANGES IN ESTIMATES

There were no material changes in the basis used for accounting estimates for the current interim period ended 30 June 2017.

A5. ISSUES, CANCELLATIONS, REPURCHASES, RESALE AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities by LPI Capital Bhd ("LPI") in the current interim period ended 30 June 2017.

A6. DIVIDEND PAID

In the current interim period ended 30 June 2017, the Company paid a second interim single tier dividend of 55.00 sen per ordinary share amounting to RM182,592,194 in respect of the financial year ended 31 December 2016 on 2 March 2017.

A7. OPERATING SEGMENT

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Group's Chief Executive Officer (the chief operating decision maker) reviews internal management reports on a monthly basis. Inter-segment pricing, if any, is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets and liabilities are measured based on all assets and liabilities of a segment, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

A7. OPERATING SEGMENT (CONT'D)

Business segments

The Group comprises the following main business segments:

General insurance - Underwriting of all classes of general insurance business, mainly carried out by Lonpac Insurance Bhd

Investment holding - Investment holding operations, mainly carried out by LPI Capital Bhd

a) Segment reporting:

RM'000	← 6 Months Ended →					
	General insurance		Investment holding		Total	
	2017	2016	2017	2016	2017	2016
External revenue	682,196	639,885	18,154	19,926	700,350	659,811
Inter-segment revenue	-	-	110,000	100,000	110,000	100,000
Segment profit before tax	161,298	148,090	126,712	266,565	288,010	414,655
Segment assets	2,706,518	2,695,515	1,257,875	1,295,409	3,964,393	3,990,924
Segment liabilities	1,944,306	2,037,960	2,159	10,554	1,946,465	2,048,514

i) Reconciliation of reportable segment profit:

RM'000	← 6 Months Ended →	
	2017	2016
Total profit for reportable segments	288,010	414,655
Elimination of inter-segment profit	(110,000)	(100,000)
Consolidated profit before tax	<u>178,010</u>	<u>314,655</u>

A7. OPERATING SEGMENT (CONT'D)

a) Segment reporting (cont'd):

ii) Reconciliation of reportable segment assets:

RM'000	← 6 Months Ended →	
	2017	2016
Total assets for reportable segments	3,964,393	3,990,924
Elimination of inter-segment assets	(200,000)	(200,270)
Consolidated assets	<u>3,764,393</u>	<u>3,790,654</u>

iii) Reconciliation of reportable segment liabilities:

RM'000	← 6 Months Ended →	
	2017	2016
Total liabilities for reportable segments	1,946,465	2,048,514
Elimination of inter-segment liabilities	-	(270)
Consolidated liabilities	<u>1,946,465</u>	<u>2,048,244</u>

A7. OPERATING SEGMENT (CONT'D)

b) Underwriting results of insurance fund

i) For the financial period ended 30 June 2017:

RM'000	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Gross written premiums	310,423	285,041	149,069	149,741	53,036	67,010	210,345	201,098	722,873	702,890
Change in unearned premiums provision	(39,844)	(52,882)	(2,202)	3,795	(11,231)	(16,532)	(14,640)	(22,916)	(67,917)	(88,535)
Gross earned premiums	270,579	232,159	146,867	153,536	41,805	50,478	195,705	178,182	654,956	614,355
Gross written premiums ceded to reinsurers	(116,585)	(113,814)	(13,750)	(27,732)	(43,634)	(57,534)	(104,334)	(106,826)	(278,303)	(305,906)
Change in unearned premiums provision	16,612	26,343	(8,920)	(3,351)	10,354	15,457	(3,092)	10,924	14,954	49,373
Premiums ceded to Reinsurers	(99,973)	(87,471)	(22,670)	(31,083)	(33,280)	(42,077)	(107,426)	(95,902)	(263,349)	(256,533)
Net earned premiums	170,606	144,688	124,197	122,453	8,525	8,401	88,279	82,280	391,607	357,822
Net claims incurred	(29,783)	(34,272)	(85,601)	(78,686)	(2,722)	(2,207)	(37,627)	(32,666)	(155,733)	(147,831)
Commission income	22,055	24,640	4,466	5,682	3,134	3,301	27,407	25,797	57,062	59,420
Commission expense	(31,146)	(28,549)	(14,197)	(15,149)	(2,398)	(2,371)	(26,090)	(23,477)	(73,831)	(69,546)
Net commission	(9,091)	(3,909)	(9,731)	(9,467)	736	930	1,317	2,320	(16,769)	(10,126)
Total out-go	(38,874)	(38,181)	(95,332)	(88,153)	(1,986)	(1,277)	(36,310)	(30,346)	(172,502)	(157,957)
Underwriting surplus before management expenses	131,732	106,507	28,865	34,300	6,539	7,124	51,969	51,934	219,105	199,865
Management expenses of the insurance fund									(90,094)	(82,149)
Underwriting surplus after management expenses									129,011	117,716
Net claims incurred ratio (%)	17.5	23.7	68.9	64.3	31.9	26.3	42.6	39.7	39.8	41.3

A7. OPERATING SEGMENTS (CONT'D)

b) Underwriting results of insurance fund (cont'd)

ii) For the 3 months period ended 30 June 2017:

RM'000	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Gross written premiums	133,876	124,784	72,230	71,285	18,760	18,758	82,352	86,342	307,218	301,169
Change in unearned premiums provision	7,099	8,508	786	4,560	2,695	6,442	18,939	3,656	29,519	23,166
Gross earned premiums	140,975	133,292	73,016	75,845	21,455	25,200	101,291	89,998	336,737	324,335
Gross written premiums ceded to reinsurers	(42,254)	(44,621)	(6,735)	(12,613)	(14,057)	(13,988)	(36,662)	(45,259)	(99,708)	(116,481)
Change in unearned premiums provision	(3,675)	1,953	(3,897)	(2,671)	(1,783)	(5,016)	(15,196)	236	(24,551)	(5,498)
Premiums ceded to Reinsurers	(45,929)	(42,668)	(10,632)	(15,284)	(15,840)	(19,004)	(51,858)	(45,023)	(124,259)	(121,979)
Net earned premiums	95,046	90,624	62,384	60,561	5,615	6,196	49,433	44,975	212,478	202,356
Net claims incurred	(15,321)	(14,577)	(47,004)	(48,793)	(1,957)	(1,362)	(20,085)	(16,049)	(84,367)	(80,781)
Commission income	11,392	9,848	2,089	2,888	975	988	12,256	11,616	26,712	25,340
Commission expense	(16,021)	(14,784)	(6,939)	(7,691)	(1,169)	(1,304)	(14,254)	(13,089)	(38,383)	(36,868)
Net commission	(4,629)	(4,936)	(4,850)	(4,803)	(194)	(316)	(1,998)	(1,473)	(11,671)	(11,528)
Total out-go	(19,950)	(19,513)	(51,854)	(53,596)	(2,151)	(1,678)	(22,083)	(17,522)	(96,038)	(92,309)
Underwriting surplus before management expenses	75,096	71,111	10,530	6,965	3,464	4,518	27,350	27,453	116,440	110,047
Management expenses of the insurance fund									(45,847)	(42,377)
Underwriting surplus after management expenses									70,593	67,670
Net claims incurred ratio (%)	16.1	16.1	75.3	80.6	34.9	22.0	40.6	35.7	39.7	39.9

A8. EVENTS AFTER THE INTERIM PERIOD

There were no material events after the interim period that have not been reflected in the financial statements for the interim period.

A9. EFFECT OF CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the quarterly period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations.

A10. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

On 22nd February 2017, Lonpac Insurance Bhd (Lonpac), a wholly-owned subsidiary of LPI Capital Bhd (LPI), received a Notice of Proposed Decision by the Malaysia Competition Commission (MyCC) under Section 36 of the Competition Act 2010.

MyCC informed that pursuant to its investigation, the commission on the preliminary basis finds that Lonpac together with the other 21 members of Persatuan Insurans Am Malaysia (PIAM) have infringed the prohibition under Section 4(2)(a) of the Competition Act for fixing parts trade discounts and labour rates for repair workshops and are therefore liable for an infringement under Section 4(3) of the Act.

MyCC has also proposed to impose a financial penalty of RM8,301,445 on Lonpac for the alleged infringement. The proposed decision is not final and Lonpac had on 25 April 2017 submitted its representation to MyCC to defend its position.

Saved as disclosed above, the Group does not have any other contingent assets and liabilities since the last annual balance sheet date.

A11. FINANCIAL INSTRUMENTS

Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the condensed consolidated statement of financial position.

30.06.2017 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Financial assets										
Available-for-sale financial assets										
- Unit trust	5,894	-	-	5,894	-	-	-	-	5,894	5,894
- Real estate investment trusts (REITS)	966	-	-	966	-	-	-	-	966	966
- Quoted shares	899,002	-	-	899,002	-	-	-	-	899,002	899,002
Held-to-maturity financial assets										
- Malaysian government guaranteed loans	-	-	-	-	-	40,413	-	40,413	40,413	40,065
- Corporate bonds and sukuk	-	-	-	-	-	201,748	-	201,748	201,748	198,597
	<u>905,862</u>	<u>-</u>	<u>-</u>	<u>905,862</u>	<u>-</u>	<u>242,161</u>	<u>-</u>	<u>242,161</u>	<u>1,148,023</u>	<u>1,144,524</u>

A11. FINANCIAL INSTRUMENTS (CONT'D)

Fair value information (cont'd)

31.12.2016 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Financial assets										
Available-for-sale financial assets										
- Unit trust	5,859	-	-	5,859	-	-	-	-	5,859	5,859
- Real estate investment trusts (REITS)	928	-	-	928	-	-	-	-	928	928
- Quoted shares	882,757	-	-	882,757	-	-	-	-	882,757	882,757
Held-to-maturity financial assets										
- Malaysian government securities	-	-	-	-	-	19,515	-	19,515	19,515	19,494
- Malaysian government guaranteed loans	-	-	-	-	-	30,206	-	30,206	30,206	30,076
- Corporate bonds and sukuk	-	-	-	-	-	196,131	-	196,131	196,131	193,633
	<u>889,544</u>	<u>-</u>	<u>-</u>	<u>889,544</u>	<u>-</u>	<u>245,852</u>	<u>-</u>	<u>245,852</u>	<u>1,135,396</u>	<u>1,132,747</u>

A11. FINANCIAL INSTRUMENTS (CONT'D)

Fair value information (cont'd)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the current interim period ended 30 June 2017. (30.06.2016: no transfer in either directions).

A12. CAPITAL AND OTHER COMMITMENTS

RM'000	30.06.2017	31.12.2016
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	7,251	7,251

A13. SIGNIFICANT RELATED PARTY TRANSACTIONS

The significant related party transactions of the Group are as follows:-

RM'000	Companies in which a Director has substantial financial interest	
	Current Year To Date Ended 30.06.2017	Preceding Year Corresponding Period Ended 30.06.2016
Income earned:		
Premium income	25,792	24,240
Dividend income	14,254	17,928
Fixed deposits income	2,948	2,881
Corporate bonds and sukuk income	1,811	1,831
	<u>44,805</u>	<u>46,880</u>
Expenditure incurred:		
Rental paid	(1,464)	(1,441)
Insurance commission	(22,938)	(21,370)
Stock broking commission	(37)	(581)
	<u>(24,439)</u>	<u>(23,392)</u>
Other Transaction:		
Purchase of corporate bonds and sukuk	<u>(10,000)</u>	<u>(5,000)</u>

PART B – ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

B1. REVIEW OF GROUP PERFORMANCE

The Group reported a commendable performance in terms of revenue in the second quarter of 2017. Revenue of the Group grew by 3.9% to RM352.7 million from RM339.3 million in the corresponding quarter in 2016. The growth was largely contributed by revenue from the general insurance segment, which increased by 3.9% to RM350.6 million from the second quarter of 2016. This in turn was attributed mainly to higher gross earned premium for the quarter which came in at RM336.7 million, a RM12.4 million or 3.8% growth from RM324.3 million in the quarter ended 30 June 2016. Revenue from the investment holding segment increased marginally to RM2.1 million from RM2.0 million in the corresponding quarter in 2016.

The Group recorded a lower profit before tax of RM89.2 million as compared to RM232.5 million in the corresponding quarter in 2016, mainly due to the non-recurring realised gains of RM150.4 million on disposal of investment in quoted equities in the same period last year from the investment holding segment. The Group profit before tax for the corresponding quarter last year would be RM82.1 million if it was adjusted to exclude the one-off realised gains of RM150.4 million, this translates to a RM7.1 million or 8.6% increase in group profit before tax in the 2nd Quarter of 2017. The general insurance segment registered a profit growth of RM5.1 million or 6.2% to RM87.2 million from RM82.1 million in the second quarter of 2016. Underwriting profit for the quarter rose by 4.3% to RM70.6 million from RM67.7 million previously, primarily driven by 5.0% growth in earned premium income.

For the six months ended 30 June 2017, the Group's revenue gained 6.2% or RM40.6 million to RM700.4 million from RM659.8 million in the corresponding period in 2016. The increase was largely contributed by the general insurance segment, which registered an increase of 6.6% to RM682.2 million from the half year ended 30 June 2016. The investment holding segment recorded lower revenue of 18.2 million as compared with RM19.9 million in the corresponding period in 2016, due to lower dividend income received during the current period.

B1. REVIEW OF GROUP PERFORMANCE (CONT'D)

Profit before tax of the Group declined by 43.4% to RM178.0 million from RM314.7 million in the corresponding period in 2016. The decrease came from the investment holding segment, which recorded a lower profit before tax of RM16.7 million from RM166.6 million, mainly due to the non-recurring gains of RM150.4 million from the sale of equity investment in the corresponding period in 2016. The general insurance segment recorded a growth in profit before tax of RM161.3 million for the period under review, having increased by RM13.2 million or 8.9% from RM148.1 million in the corresponding period in 2016. This was attributed to its better claims experience, as reflected in the lowering of its net claims incurred ratio from 41.3% to 39.8%.

B2. MATERIAL CHANGES IN THE PROFIT BEFORE TAX FOR THE QUARTER REPORTED ON WITH THE IMMEDIATE PRECEDING QUARTER

For the second quarter ended 30 June 2017, the Group recorded a higher profit before tax of RM89.2 million as compared to RM88.8 million in the preceding quarter ended 31 March 2017. The improved performance was due to better underwriting experience, primarily driven by 18.6% growth in net earned premium income.

B3. CURRENT YEAR PROSPECTS

a) The Malaysian general insurance industry registered a reduction of 2.7% in gross written premium for the first quarter of 2017. With the implementation of Phase 2 of the Liberalisation Framework effective 1st July 2017, whereby motor insurance for comprehensive cover and third party fire and theft will be detariffed, we expect Lonpac to face stiffer competition in the second half of the year as insurers operating in the new liberalised environment scramble to build their respective market share.

Malaysia has had a good year-to-date performance with growth that had surpassed expectations, a currency that outperformed its peers when benchmarked against the US Dollar and renewed confidence of foreign investors in the Malaysian equity market. The economy appears on track to register higher growth in 2017. Domestic demand is projected to continue to expand. Exports are expected to benefit from the improvement in global growth. While inflation increased in the first quarter, it is expected to moderate from the second quarter onwards.

B3. CURRENT YEAR PROSPECTS (CONT'D)

- a) It is hoped that the Malaysian general insurance industry will respond positively too, with a stronger performance. We are optimistic that the Group will report a favourable performance for the second half year of 2017 on the back of a strong recovery in the Malaysian economy, despite the increased competition we are facing as the market liberalises.
- b) Commentary on the Company's progress to achieve the financial estimate, forecast, projection or internal targets in the remaining period to the end of the financial year and the forecast period which was previously announced or disclosed in a public document and steps taken or proposed to be taken to achieve the financial estimate, forecast, projection or internal targets. – Not Applicable.

B4. STATEMENT ON FINANCIAL ESTIMATE, FORECAST, PROJECTION OR INTERNAL TARGETS PREVIOUSLY ANNOUNCED OR DISCLOSED IN A PUBLIC DOCUMENT

A statement of the Board of Directors' opinion as to whether the financial estimate, forecast, projection or internal targets in the remaining period to the end of the financial year and the forecast period which was previously announced or disclosed in a public document are likely to be achieved. – Not Applicable.

B5. EXPLANATORY NOTE FOR VARIANCE FROM A FINANCIAL ESTIMATE, FORECAST OR PROJECTION OR PROFIT GUARANTEE PREVIOUSLY ANNOUNCED OR DISCLOSED IN A PUBLIC DOCUMENT

- a) Any variance of actual profit after tax and minority interest and the profit after tax and minority interest stated in the financial estimate, forecast or projection (where the variance exceeds 10%). – Not Applicable.
- b) Any shortfall in the profit guarantee received by the Company and steps to recover the shortfall. – Not Applicable.

B6. TAXATION

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended 30.06.2017	Preceding Year Corresponding Quarter Ended 30.06.2016	Current Year To Date Ended 30.06.2017	Preceding Year Corresponding Period Ended 30.06.2016
Profit before tax	89,216	232,474	178,010	314,655
Income tax:				
Current tax charge	21,152	19,855	39,383	36,650
	<u>21,152</u>	<u>19,855</u>	<u>39,383</u>	<u>36,650</u>
Effective tax rate on current tax charge	24%	9%	22%	12%

The effective tax rate on the current tax charge of the Group for the current financial period ended 30 June 2017 is lower than the statutory tax rate mainly due to tax-exempt dividends received and certain income being taxed at a reduced rate.

B7. STATUS OF CORPORATE PROPOSALS

- a) There was no corporate proposal announced but not completed as at 3 July 2017, the latest practicable date which is not earlier than 7 days from the date of the issue of this quarterly report.
- b) Brief explanation of the status of utilisation of proceeds raised from any corporate proposal, including an initial public offering. – Not Applicable.

B8. GROUP BORROWINGS AND DEBT SECURITIES

The Group has no outstanding borrowings and debt securities for the current interim period ended 30 June 2017.

B9. DISCLOSURE OF DERIVATIVES

A disclosure on outstanding derivatives (including financial instruments designated as hedging instruments) as at 30 June 2017. – Not Applicable.

B10. GAINS/ LOSSES ARISING FROM FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

There were no gains/ losses arising from fair value changes of the financial liabilities for the current quarter and financial period ended 30 June 2017.

B11. CHANGES IN MATERIAL LITIGATION

There were no pending material litigations since the last annual balance sheet date up to 3 July 2017, which is not earlier than 7 days from date of issue of this quarterly report.

B12. DIVIDEND

a) i) An interim dividend has been declared by the Directors;

ii) The amount per share:

	<u>Net per share</u> <u>(sen)</u>
• Single tier dividend	27.00

iii) The previous corresponding period:

	<u>Net per share</u> <u>(sen)</u>
• Single tier dividend	25.00

iv) The date payable: 2 August 2017;

v) In respect of deposited securities, entitlement to dividends will be determined on the basis of the record of depositors as at 25 July 2017; and

b) The total dividend for the 6 months ended 30 June 2017: 27.00 sen single tier dividend per share.

B13. EARNINGS PER SHARE

a) Basic earnings per share

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended	Preceding Year Corresponding Quarter Ended	Current Year To Date Ended	Preceding Year Corresponding Period Ended
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
Profit after tax (RM'000)	68,064	212,619	138,627	278,005
Weighted average no. of ordinary shares in issue ('000)	331,986	331,986	331,986	331,986
Basic earnings per share (sen)	20.51	64.04	41.76	83.74

b) Diluted earnings per share. – Not Applicable.

B14. PROFIT FOR THE PERIOD

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter Ended	Preceding Year Corresponding Quarter Ended	Current Year To Date Ended	Preceding Year Corresponding Period Ended
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after charging:				
Depreciation of plant and equipment (N1)	799	876	1,489	1,784
Net foreign exchange loss / (gain) (N1)	179	(141)	376	17
Impairment loss on quoted investment (N4)	-	806	-	806
and after crediting:				
Interest income (N2)	14,857	13,372	29,646	24,992
Dividend income (N2)	880	1,326	15,265	19,970
Rental income (N2)	236	217	483	494
Write back of / (allowance for) impairment loss on insurance receivables (N1)	2,059	(491)	2,031	(2,375)
Write back of impairment loss on other receivables (N1)	-	1	-	1
Gain on disposal of quoted and unquoted investments (N3)	2,513	150,356	2,513	150,356

Other than the items above which have been included in the Condensed Consolidated Statement of Profit or Loss, there were no impairment allowance on other receivables, impairments of assets, gain or loss on derivatives and exceptional items for the current financial period ended 30 June 2017.

(N1) Depreciation of plant and equipment, net foreign exchange loss / (gain), (write back of) / allowance for impairment loss on insurance receivables and write back of impairment loss on other receivables are reported under item management expenses in the Condensed Consolidated Statement of Profit or Loss.

B14. PROFIT FOR THE PERIOD (CONT'D)

- (N2) Interest income, dividend income and rental income are reported under item investment income in the Condensed Consolidated Statement of Profit or Loss.
- (N3) Gain on disposal of quoted and unquoted investments are reported under item realised gains and losses in the Condensed Consolidated Statement of Profit or Loss.
- (N4) Impairment loss on quoted investments are reported under item fair value gains and losses in the Condensed Consolidated Statement of Profit or Loss.

B15. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS

The breakdown of the retained profits of the Group as at 30 June 2017, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, are as follows:

	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
Total retained profits of the Group:		
- Realised	787,662	833,020
- Unrealised	15,212	15,352
	<hr/> 802,874	<hr/> 848,372
Total share of retained profits from associated company		
- Realised	12,006	10,473
	<hr/> 814,880	<hr/> 858,845
Less: Consolidation adjustments	(100,447)	(100,447)
Total retained profits as per statement of financial position	<hr/> <hr/> 714,433	<hr/> <hr/> 758,398

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

B16. DISCLOSURE ON QUALIFICATION OF AUDIT REPORT

The audit report of the Group's preceding annual financial statements was not qualified.