

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

| | Individual Period | | Cumulative Period | |
|---|---|--|--|--|
| | Current Year Quarter Ended 30.09.2017 RM'000 | Preceding Year Corresponding Quarter Ended 30.09.2016 RM'000 | Current Year To Date Ended 30.09.2017 RM'000 | Preceding Year Corresponding Period Ended 30.09.2016 RM'000 |
| Operating revenue | 406,788 | 363,529 | 1,107,138 | 1,023,340 |
| Gross written premiums | 416,647 | 309,556 | 1,139,520 | 1,012,446 |
| Change in unearned premiums provision | (37,729) | 26,721 | (105,646) | (61,814) |
| Gross earned premiums | 378,918 | 336,277 | 1,033,874 | 950,632 |
| Gross written premiums ceded to reinsurers | (191,530) | (117,767) | (469,833) | (423,673) |
| Change in unearned premiums provision | 44,082 | (19,383) | 59,036 | 29,990 |
| Premiums ceded to reinsurers | (147,448) | (137,150) | (410,797) | (393,683) |
| Net earned premiums | 231,470 | 199,127 | 623,077 | 556,949 |
| Investment income | 27,870 | 27,252 | 73,264 | 72,708 |
| Realised gains and losses | 241 | - | 3,052 | 150,356 |
| Fair value gains and losses | - | - | - | (806) |
| Commission income | 37,732 | 23,607 | 94,794 | 83,027 |
| Other operating income | 3,894 | 1,811 | 5,965 | 5,948 |
| Other income | 69,737 | 52,670 | 177,075 | 311,233 |
| Gross claims paid | (127,321) | (158,884) | (353,157) | (396,615) |
| Claims ceded to reinsurers | 40,669 | 85,871 | 119,425 | 185,275 |
| Gross change in contract liabilities | 7,349 | 17,756 | 1,744 | (5,643) |
| Change in contract liabilities ceded to reinsurers | (14,062) | (22,213) | (17,110) | (8,318) |
| Net claims incurred | (93,365) | (77,470) | (249,098) | (225,301) |
| Commission expense | (49,241) | (37,325) | (123,072) | (106,871) |
| Management expenses | (44,060) | (39,898) | (136,964) | (125,687) |
| Other expenses | (93,301) | (77,223) | (260,036) | (232,558) |
| Operating profit | 114,541 | 97,104 | 291,018 | 410,323 |
| Share of profit after tax of equity accounted associated company | 493 | 300 | 2,026 | 1,736 |
| Profit before tax | 115,034 | 97,404 | 293,044 | 412,059 |
| Tax expense | (22,864) | (19,636) | (62,247) | (56,286) |
| Profit for the period | 92,170 | 77,768 | 230,797 | 355,773 |
| Profit attributable to: | | | | |
| Owners of the Company | 92,170 | 77,768 | 230,797 | 355,773 |
| Earnings per ordinary share (sen) | | | | |
| - Basic | 27.76 | 23.43 | 69.52 | 107.17 |
| - 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 September 2017 - Unaudited

| | Individual Period | | Cumulative Period | |
|--|---|---|---|--|
| | Current Year Quarter Ended 30.09.2017 RM'000 | Preceding Year Corresponding Quarter Ended 30.09.2016 RM'000 | Current Year To Date Ended 30.09.2017 RM'000 | Preceding Year Corresponding Period Ended 30.09.2016 RM'000 |
| Profit for the period | 92,170 | 77,768 | 230,797 | 355,773 |
| Other comprehensive income | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | |
| Foreign currency translation differences for foreign operation | 38 | 503 | (1,468) | (1,618) |
| Fair value of available-for-sale financial assets | | | | |
| - Gain arising during the period | 5,364 | 17,890 | 33,840 | 61,427 |
| - Reclassification to profit or loss | - | - | (2,513) | (149,550) |
| | 5,364 | 17,890 | 31,327 | (88,123) |
| | 5,402 | 18,393 | 29,859 | (89,741) |
| Tax effect on net (loss) / gain on fair value of available-for-sale financial assets | (29) | 1 | 91 | (68) |
| Total other comprehensive income / (loss) for the period, net of tax | 5,373 | 18,394 | 29,950 | (89,809) |
| Total comprehensive income for the period attributable to owners of the Company | 97,543 | 96,162 | 260,747 | 265,964 |

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 September 2017 - Unaudited

| | As At 30.09.2017 | As At 31.12.2016 |
|---|---------------------|---------------------|
| | RM'000 | RM'000 |
| Assets | | |
| Plant and equipment | 14,955 | 13,042 |
| Investment properties | 27,990 | 27,900 |
| Investment in associated company | 27,135 | 26,796 |
| Other investments | 1,126,105 | 1,132,982 |
| Available-for-sale financial assets | 911,506 | 889,779 |
| Held-to-maturity financial assets | 214,599 | 243,203 |
| Reinsurance assets | 727,143 | 685,035 |
| Loans and receivables, excluding insurance receivables | 1,455,935 | 1,256,662 |
| Insurance receivables | 182,750 | 150,728 |
| Deferred acquisition costs | 31,365 | 30,451 |
| Cash and cash equivalents | 275,363 | 332,517 |
| Total assets | 3,868,741 | 3,656,113 |
| Equity | | |
| Share capital | 331,986 | 331,986 |
| Reserves | 1,493,849 | 1,505,330 |
| Total equity | 1,825,835 | 1,837,316 |
| Liabilities | | |
| Insurance contract liabilities | 1,713,853 | 1,609,458 |
| Deferred tax liabilities | 1,002 | 944 |
| Insurance payables | 177,218 | 79,804 |
| Other payables | 126,591 | 105,374 |
| Tax payables | 24,242 | 23,217 |
| Total liabilities | 2,042,906 | 1,818,797 |
| Total equity and liabilities | 3,868,741 | 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 September 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>9 Months Period Ended 30 September 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 | - | - | (1,468) | - | - | (1,468) |
| Fair value of available-for-sale financial assets | - | - | - | 31,418 | - | 31,418 |
| Total other comprehensive (loss) / income for the period | - | - | (1,468) | 31,418 | - | 29,950 |
| Profit for the period | - | - | - | - | 230,797 | 230,797 |
| Total comprehensive (loss) / income for the period | - | - | (1,468) | 31,418 | 230,797 | 260,747 |
| Distribution to owners of the Company | | | | | | |
| - Dividends to owners of the Company | - | - | - | - | (272,228) | (272,228) |
| Total transaction with owners of the Company | - | - | - | - | (272,228) | (272,228) |
| Balance as at 30 September 2017 | 331,986 | 6,258 | 25,605 | 745,019 | 716,967 | 1,825,835 |

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

| | ← Non-distributable → | | | Distributable | | |
|--|-----------------------|---------------|--------------------------------------|--------------------|-------------------|------------------|
| | Share capital | Share premium | Foreign currency translation reserve | Fair value reserve | Retained earnings | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 9 Months Period Ended 30 September 2016 | | | | | | |
| 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 | - | - | (1,618) | - | - | (1,618) |
| Fair value of available-for-sale financial assets | - | - | - | (88,191) | - | (88,191) |
| Total other comprehensive loss for the period | - | - | (1,618) | (88,191) | - | (89,809) |
| Profit for the period | - | - | - | - | 355,773 | 355,773 |
| Total comprehensive (loss) / income for the period | - | - | (1,618) | (88,191) | 355,773 | 265,964 |
| Distribution to owners of the Company | | | | | | |
| - Dividends to owners of the Company | - | - | - | - | (248,989) | (248,989) |
| Total transaction with owners of the Company | - | - | - | - | (248,989) | (248,989) |
| Balance as at 30 September 2016 | <u>331,986</u> | <u>6,258</u> | <u>23,198</u> | <u>717,186</u> | <u>676,948</u> | <u>1,755,576</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 September 2017 - Unaudited

| | Current Year To Date Ended 30.09.2017 RM'000 | Preceding Year Corresponding Period Ended 30.09.2016 RM'000 |
|---|---|--|
| Operating activities | | |
| Profit before tax | 293,044 | 412,059 |
| Investment income | (73,264) | (72,708) |
| Realised gains recorded in profit or loss | (3,052) | (150,356) |
| Fair value losses recorded in profit or loss | - | 806 |
| Share of profit of equity accounted associated company | (2,026) | (1,736) |
| 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 | (43,255) | (13,076) |
| Maturity of held-to-maturity financial assets | 71,833 | 58,800 |
| Non-cash items: | | |
| Depreciation of plant and equipment | 2,316 | 2,691 |
| Fixed assets written off | 3 | - |
| Unrealised foreign exchange loss | 301 | (51) |
| Changes in working capital: | | |
| Increase in loans and receivables | (199,065) | (764,726) |
| Increase in reinsurance assets | (41,926) | (21,673) |
| Increase in insurance receivables | (31,989) | (32,979) |
| (Increase) / Decrease in deferred acquisition costs | (919) | 4,396 |
| Increase in insurance contract liabilities | 103,902 | 67,457 |
| Increase in insurance payables | 97,405 | 17,153 |
| Increase in other payables | 21,159 | 12,593 |
| Cash generated from / (used in) operating activities | 206,603 | (304,462) |
| Dividend income received | 27,735 | 32,764 |
| Interest income received | 44,870 | 39,221 |
| Rental income on investment property received | 713 | 705 |
| Income tax paid | (61,076) | (52,308) |
| Net cash flows generated from / (used in) operating activities | 218,845 | (284,080) |

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

| | Current Year To Date Ended 30.09.2017 RM'000 | Preceding Year Corresponding Period Ended 30.09.2016 RM'000 |
|--|---|--|
| Investing activities | | |
| Proceeds from disposal of plant and equipment | 565 | - |
| Purchase of plant and equipment | (4,254) | (2,205) |
| Net cash flows used in investing activities | <u>(3,689)</u> | <u>(2,205)</u> |
| Financing activities | | |
| Dividends paid to owners of the Company | (272,228) | (248,989) |
| Net cash flows used in financing activities | <u>(272,228)</u> | <u>(248,989)</u> |
| Net decrease in cash and cash equivalents | (57,072) | (535,274) |
| Cash and cash equivalents at beginning of year | 332,517 | 952,253 |
| Effect of movement in exchange rates | (82) | (524) |
| Cash and cash equivalents at end of period | <u>275,363</u> | <u>416,455</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 September 2017.

A4. CHANGES IN ESTIMATES

During the financial period, the Group revised its accounting estimate in relation to the Unearned Premium Reserves (UPR) calculation for certain classes of business to reflect a more accurate position of the Group's UPR as at period end.

The previously used calculation method:-

Annual policies

- (i) 25% method for marine cargo, aviation and transit business.
- (ii) 1/24th method for all other classes of Malaysian general policies and overseas inwards business.

Non annual policies

Premiums are apportioned evenly over the period the policies are on risk.

The revised calculation method:-

- (i) 25% method for marine cargo, aviation and transit business.
- (ii) 1/365th method for all other classes of direct and facultative inwards business.
- (iii) 1/24th method for all treaty inwards business.

The UPR calculation is adjusted for additional UPR in respect of premiums ceded to overseas reinsurers as required under the guidelines issued by Bank Negara Malaysia.

A4. CHANGES IN ESTIMATES (CONTINUED)

The revision of the calculation method was accounted for prospectively as a change in accounting estimate. The effects of these changes in current period are as follow:-

Statement of Financial Position

| | Based on Previous <u>Method</u> RM'000 | Based on Revised <u>Method</u> RM'000 | Financial <u>Impacts</u> RM'000 |
|--------------------------------|---|--|---------------------------------------|
| <u>Assets</u> | | | |
| Reinsurance assets | 745,300 | 727,143 | (18,157) |
| Deferred acquisition costs | 31,307 | 31,365 | 58 |
| | ===== | ===== | ===== |
| <u>Liabilities</u> | | | |
| Insurance contract liabilities | 1,755,226 | 1,713,853 | (41,373) |
| | ===== | ===== | ===== |

Statement of Profit or Loss

| | Based on Previous <u>Method</u> RM'000 | Based on Revised <u>Method</u> RM'000 | Financial <u>Impacts</u> RM'000 |
|-----------------------------|---|--|---------------------------------------|
| Gross earned premiums | 979,361 | 1,033,874 | 54,513 |
| Premium ceded to reinsurers | (390,495) | (410,797) | (20,302) |
| | ----- | ----- | ----- |
| Net earned premiums | 588,866 | 623,077 | 34,211 |
| | ----- | ----- | ----- |
| Commission income | 82,902 | 94,794 | 11,892 |
| Net claims incurred | (238,103) | (249,098) | (10,995) |
| Commission expense | (111,238) | (123,072) | (11,834) |
| Profit before tax | 269,770 | 293,044 | 23,274 |
| | ===== | ===== | ===== |

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 September 2017.

A6. DIVIDEND PAID

a) 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 was paid on 2 March 2017; and

b) A first interim single tier dividend of 27.00 sen per ordinary share amounting to RM89,636,168 in respect of the financial year ending 31 December 2017 was paid on 2 August 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 (CONTINUED)

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

Segment reporting:

| RM'000 | ← 9 Months Ended → | | | | | |
|---------------------------|--------------------|-----------|--------------------|-----------|-----------|-----------|
| | General insurance | | Investment holding | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| External revenue | 1,075,666 | 989,788 | 31,472 | 33,552 | 1,107,138 | 1,023,340 |
| Inter-segment revenue | - | - | 170,000 | 160,000 | 170,000 | 160,000 |
| Segment profit before tax | 263,897 | 233,500 | 199,147 | 338,559 | 463,044 | 572,059 |
| Segment assets | 2,823,241 | 2,648,558 | 1,245,500 | 1,293,952 | 4,068,741 | 3,942,510 |
| Segment liabilities | 2,040,359 | 1,983,451 | 2,547 | 3,483 | 2,042,906 | 1,986,934 |

i) Reconciliation of reportable segment profit:

| RM'000 | ← 9 Months Ended → | |
|--------------------------------------|--------------------|----------------|
| | 2017 | 2016 |
| Total profit for reportable segments | 463,044 | 572,059 |
| Elimination of inter-segment profit | (170,000) | (160,000) |
| Consolidated profit before tax | <u>293,044</u> | <u>412,059</u> |

A7. OPERATING SEGMENT (CONTINUED)

Segment reporting (continued):

ii) Reconciliation of reportable segment assets:

| RM'000 | ← 9 Months Ended → | |
|--------------------------------------|--------------------|------------------|
| | 2017 | 2016 |
| Total assets for reportable segments | 4,068,741 | 3,942,510 |
| Elimination of inter-segment assets | (200,000) | (200,276) |
| Consolidated assets | <u>3,868,741</u> | <u>3,742,234</u> |

iii) Reconciliation of reportable segment liabilities:

| RM'000 | ← 9 Months Ended → | |
|---|--------------------|------------------|
| | 2017 | 2016 |
| Total liabilities for reportable segments | 2,042,906 | 1,986,934 |
| Elimination of inter-segment liabilities | - | (276) |
| Consolidated liabilities | <u>2,042,906</u> | <u>1,986,658</u> |

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.

MyCC has set the first session of the oral representation to be held on 16th to 17th October 2017.

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.

| 30.09.2017 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 | 5,925 | - | - | 5,925 | - | - | - | - | 5,925 | 5,925 |
| - Real estate investment trusts (REITs) | 937 | - | - | 937 | - | - | - | - | 937 | 937 |
| - Quoted shares | 904,409 | - | - | 904,409 | - | - | - | - | 904,409 | 904,409 |
| Held-to-maturity financial assets | | | | | | | | | | |
| - Malaysian government guaranteed loans | - | - | - | - | - | 40,353 | - | 40,353 | 40,353 | 40,060 |
| - Corporate bonds and sukuk | - | - | - | - | - | 177,733 | - | 177,733 | 177,733 | 174,539 |
| | <u>911,271</u> | <u>-</u> | <u>-</u> | <u>911,271</u> | <u>-</u> | <u>218,086</u> | <u>-</u> | <u>218,086</u> | <u>1,129,357</u> | <u>1,125,870</u> |

A11. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

| 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 (CONTINUED)

Fair value information (continued)

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 September 2017. (30.09.2016: no transfer in either directions).

A12. CAPITAL AND OTHER COMMITMENTS

| RM'000 | 30.09.2017 | 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 | <u>Companies in which a Director has substantial financial interest</u> | |
|---------------------------------------|---|--|
| | Current Year To Date Ended 30.09.2017 | Preceding Year Corresponding Period Ended 30.09.2016 |
| Income earned: | | |
| Premium income | 30,859 | 29,466 |
| Dividend income | 26,142 | 29,599 |
| Fixed deposits income | 3,761 | 4,629 |
| Corporate bonds and sukuk income | 2,679 | 2,771 |
| | <u>63,441</u> | <u>66,465</u> |
| Expenditure incurred: | | |
| Rental paid | (2,195) | (2,161) |
| Insurance commission | (34,853) | (32,262) |
| Stock broking commission | (37) | (581) |
| | <u>(37,085)</u> | <u>(35,004)</u> |
| Other Transaction: | | |
| Purchase of corporate bonds and sukuk | (20,000) | (5,000) |

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

B1. REVIEW OF GROUP PERFORMANCE

Table 1: Financial review for current quarter and financial period to date

| RM'mil | Individual Period | | Changes | | Cumulative Period | | Changes | |
|--|----------------------------|--|---------|-------------|----------------------------|---|---------|-------------|
| | Current Year Quarter Ended | Preceding Year Corresponding Quarter Ended | | | Current Year To Date Ended | Preceding Year Corresponding Period Ended | | |
| | 30.09.2017 | 30.09.2016 | Amount | % / PPT (*) | 30.09.2017 | 30.09.2016 | Amount | % / PPT (*) |
| Revenue by segments | | | | | | | | |
| General insurance segment | 393.5 | 349.9 | 43.6 | 12.5% | 1,075.7 | 989.8 | 85.9 | 8.7% |
| Gross earned premiums | 378.9 | 336.3 | 42.6 | 12.7% | 1,033.9 | 950.6 | 83.3 | 8.8% |
| Investment income | 14.6 | 13.6 | 1.0 | 7.4% | 41.8 | 39.2 | 2.6 | 6.6% |
| Investment holding segment | | | | | | | | |
| Investment income | 13.3 | 13.6 | (0.3) | (2.2%) | 31.4 | 33.5 | (2.1) | (6.3%) |
| Total revenue | 406.8 | 363.5 | 43.3 | 11.9% | 1,107.1 | 1,023.3 | 83.8 | 8.2% |
| Revenue by geographical locations | | | | | | | | |
| Malaysia | 387.5 | 341.7 | 45.8 | 13.4% | 1,050.5 | 955.4 | 95.1 | 10.0% |
| Singapore | 19.3 | 21.8 | (2.5) | (11.5%) | 56.6 | 67.9 | (11.3) | (16.6%) |
| Total revenue | 406.8 | 363.5 | 43.3 | 11.9% | 1,107.1 | 1,023.3 | 83.8 | 8.2% |
| Operating profit | 114.5 | 97.1 | 17.4 | 17.9% | 291.0 | 410.3 | (119.3) | (29.1%) |

(* PPT – percentage points)

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 1: Financial review for current quarter and financial period to date (continued)

| | Individual Period | | Changes | | Cumulative Period | | Changes | |
|---|----------------------------|--|---------|-------------|----------------------------|---|---------|-------------|
| | Current Year Quarter Ended | Preceding Year Corresponding Quarter Ended | | | Current Year To Date Ended | Preceding Year Corresponding Period Ended | | |
| | 30.09.2017 | 30.09.2016 | Amount | % / PPT (*) | 30.09.2017 | 30.09.2016 | Amount | % / PPT (*) |
| Profit before tax by segments | | | | | | | | |
| General insurance (RM'mil) | 102.8 | 85.4 | 17.4 | 20.4% | 263.9 | 233.5 | 30.4 | 13.0% |
| Investment holding (RM'mil) | 12.2 | 12.0 | 0.2 | 1.7% | 29.1 | 178.6 | (149.5) | (83.7%) |
| Total profit before tax | 115.0 | 97.4 | 17.6 | 18.1% | 293.0 | 412.1 | (119.1) | (28.9%) |
| Profit before tax by geographical locations | | | | | | | | |
| Malaysia (RM'mil) | 112.4 | 95.6 | 16.8 | 17.6% | 284.5 | 409.4 | (124.9) | (30.5%) |
| Singapore (RM'mil) | 2.1 | 1.5 | 0.6 | 40.0% | 6.5 | 1.0 | 5.5 | 550.0% |
| Cambodia (RM'mil) | 0.5 | 0.3 | 0.2 | 66.7% | 2.0 | 1.7 | 0.3 | 17.6% |
| Total profit before tax | 115.0 | 97.4 | 17.6 | 18.1% | 293.0 | 412.1 | (119.1) | (28.9%) |
| Profit attributable to owners of the Company (RM'mil) | 92.2 | 77.8 | 14.4 | 18.5% | 230.8 | 355.8 | (125.0) | (35.1%) |
| Net return on equity (%) | 5.0 | 4.4 | - | 0.6 PPT | 12.6 | 20.3 | - | (7.7) PPT |
| Earnings per share (sen) | 27.76 | 23.43 | 4.33 | 18.5% | 69.52 | 107.17 | (37.65) | (35.1%) |

(* PPT – percentage points)

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 1: Financial review for current quarter and financial period to date (continued)

| | Individual Period | | Changes | | Cumulative Period | | Changes | |
|---|----------------------------|--|---------|-------------|----------------------------|---|---------|-------------|
| | Current Year Quarter Ended | Preceding Year Corresponding Quarter Ended | | | Current Year To Date Ended | Preceding Year Corresponding Period Ended | | |
| | 30.09.2017 | 30.09.2016 | Amount | % / PPT (*) | 30.09.2017 | 30.09.2016 | Amount | % / PPT (*) |
| General insurance gross written premiums (RM'mil) | 416.6 | 309.6 | 107.0 | 34.6% | 1,139.5 | 1,012.4 | 127.1 | 12.6% |
| General insurance net earned premiums (RM'mil) | 231.5 | 199.1 | 32.4 | 16.3% | 623.1 | 556.9 | 66.2 | 11.9% |
| General insurance underwriting profit (RM'mil) | 83.6 | 69.7 | 13.9 | 19.9% | 212.6 | 187.4 | 25.2 | 13.4% |
| General insurance claims incurred ratio (%) | 40.3 | 38.9 | - | 1.4 PPT | 40.0 | 40.5 | - | (0.5) PPT |
| General insurance management expenses ratio (%) | 18.6 | 19.2 | - | (0.6) PPT | 21.4 | 21.6 | - | (0.2) PPT |
| General insurance commission ratio (%) | 5.0 | 6.9 | - | (1.9) PPT | 4.5 | 4.3 | - | 0.2 PPT |
| General insurance combined ratio (%) | 63.9 | 65.0 | - | (1.1) PPT | 65.9 | 66.4 | - | (0.5) PPT |

(* PPT – percentage points)

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 2: Underwriting results of general insurance for the 3 months period ended 30 September 2017:

| RM'000 | Fire | | Motor | | Marine, Aviation & Transit | | Miscellaneous | | Total | |
|---|----------|----------|----------|----------|----------------------------|----------|---------------|----------|-----------|-----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Gross written premiums | 133,042 | 120,304 | 75,110 | 75,869 | 11,398 | 19,175 | 197,097 | 94,208 | 416,647 | 309,556 |
| Change in unearned premiums provision | 26,802 | 16,733 | 11,013 | (863) | 9,917 | 9,253 | (85,461) | 1,598 | (37,729) | 26,721 |
| Gross earned premiums | 159,844 | 137,037 | 86,123 | 75,006 | 21,315 | 28,428 | 111,636 | 95,806 | 378,918 | 336,277 |
| Gross written premiums ceded to reinsurers | (37,298) | (36,644) | (7,218) | (13,290) | (7,433) | (14,966) | (139,581) | (52,867) | (191,530) | (117,767) |
| Change in unearned premiums provision | (21,061) | (8,701) | (4,083) | (1,272) | (8,403) | (8,582) | 77,629 | (828) | 44,082 | (19,383) |
| Premiums ceded to Reinsurers | (58,359) | (45,345) | (11,301) | (14,562) | (15,836) | (23,548) | (61,952) | (53,695) | (147,448) | (137,150) |
| Net earned premiums | 101,485 | 91,692 | 74,822 | 60,444 | 5,479 | 4,880 | 49,684 | 42,111 | 231,470 | 199,127 |
| Net claims incurred | (13,755) | (16,509) | (55,511) | (46,807) | (2,029) | (2,748) | (22,070) | (11,406) | (93,365) | (77,470) |
| Commission income | 16,481 | 9,770 | 1,852 | 2,652 | 1,086 | 1,195 | 18,313 | 9,990 | 37,732 | 23,607 |
| Commission expense | (23,468) | (15,895) | (7,893) | (7,557) | (1,077) | (1,191) | (16,803) | (12,682) | (49,241) | (37,325) |
| Net commission | (6,987) | (6,125) | (6,041) | (4,905) | 9 | 4 | 1,510 | (2,692) | (11,509) | (13,718) |
| Total out-go | (20,742) | (22,634) | (61,552) | (51,712) | (2,020) | (2,744) | (20,560) | (14,098) | (104,874) | (91,188) |
| Underwriting surplus before management expenses | 80,743 | 69,058 | 13,270 | 8,732 | 3,459 | 2,136 | 29,124 | 28,013 | 126,596 | 107,939 |
| Management expenses of the insurance fund | | | | | | | | | (42,978) | (38,221) |
| Underwriting surplus after management expenses | | | | | | | | | 83,618 | 69,718 |
| Net claims incurred ratio (%) | 13.6 | 18.0 | 74.2 | 77.4 | 37.0 | 56.3 | 44.4 | 27.1 | 40.3 | 38.9 |

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 3: Underwriting results of general insurance for the financial period ended 30 September 2017:

| RM'000 | Fire | | Motor | | Marine, Aviation & Transit | | Miscellaneous | | Total | |
|---|-----------|-----------|-----------|-----------|----------------------------|----------|---------------|-----------|-----------|-----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Gross written premiums | 443,465 | 405,345 | 224,179 | 225,610 | 64,434 | 86,185 | 407,442 | 295,306 | 1,139,520 | 1,012,446 |
| Change in unearned premiums provision | (13,042) | (36,149) | 8,811 | 2,932 | (1,314) | (7,279) | (100,101) | (21,318) | (105,646) | (61,814) |
| Gross earned premiums | 430,423 | 369,196 | 232,990 | 228,542 | 63,120 | 78,906 | 307,341 | 273,988 | 1,033,874 | 950,632 |
| Gross written premiums ceded to reinsurers | (153,883) | (150,458) | (20,968) | (41,022) | (51,067) | (72,500) | (243,915) | (159,693) | (469,833) | (423,673) |
| Change in unearned premiums provision | (4,449) | 17,642 | (13,003) | (4,623) | 1,951 | 6,875 | 74,537 | 10,096 | 59,036 | 29,990 |
| Premiums ceded to Reinsurers | (158,332) | (132,816) | (33,971) | (45,645) | (49,116) | (65,625) | (169,378) | (149,597) | (410,797) | (393,683) |
| Net earned premiums | 272,091 | 236,380 | 199,019 | 182,897 | 14,004 | 13,281 | 137,963 | 124,391 | 623,077 | 556,949 |
| Net claims incurred | (43,538) | (50,781) | (141,112) | (125,493) | (4,751) | (4,955) | (59,697) | (44,072) | (249,098) | (225,301) |
| Commission income | 38,536 | 34,410 | 6,318 | 8,334 | 4,220 | 4,496 | 45,720 | 35,787 | 94,794 | 83,027 |
| Commission expense | (54,614) | (44,444) | (22,090) | (22,706) | (3,475) | (3,562) | (42,893) | (36,159) | (123,072) | (106,871) |
| Net commission | (16,078) | (10,034) | (15,772) | (14,372) | 745 | 934 | 2,827 | (372) | (28,278) | (23,844) |
| Total out-go | (59,616) | (60,815) | (156,884) | (139,865) | (4,006) | (4,021) | (56,870) | (44,444) | (277,376) | (249,145) |
| Underwriting surplus before management expenses | 212,475 | 175,565 | 42,135 | 43,032 | 9,998 | 9,260 | 81,093 | 79,947 | 345,701 | 307,804 |
| Management expenses of the insurance fund | | | | | | | | | (133,072) | (120,370) |
| Underwriting surplus after management expenses | | | | | | | | | 212,629 | 187,434 |
| Net claims incurred ratio (%) | 16.0 | 21.5 | 70.9 | 68.6 | 33.9 | 37.3 | 43.3 | 35.4 | 40.0 | 40.5 |

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Revenue

The Group registered a strong growth in revenue for the third quarter of 2017. Despite the implementation of Phase 2 of the Liberalisation Framework effective from 1st July 2017, whereby the general insurance market is expected to see keener competition and pricing pressure on motor and fire insurances, revenue of the Group grew by 11.9% to RM406.8 million from RM363.5 million, mainly driven by strong growth in gross earned premium of 12.7% or RM42.6 million from its general insurance segment. This was the result of our organic growth and we continued to build market share with our diversified distribution channels especially strong agency network. Investment holding segment recorded lower revenue of RM13.3 million as compared to RM13.6 million in the corresponding quarter in 2016 due to lower interest income received.

For the nine months ended 30 September 2017, the Group's revenue grew 8.2% or RM83.8 million to RM1,107.1 million from RM1,023.3 million in the corresponding period in 2016. Of the total amount of RM1,107.1 million, RM1,075.7 million was generated from general insurance segment and RM31.4 million from investment holding segment. The growth in revenue was largely contributed by the general insurance segment, which registered an increase of 8.7% to RM1,075.7 million compared to RM989.8 million in 30 September 2016. The investment holding segment recorded lower revenue of 31.4 million as compared to RM33.5 million in the corresponding period in 2016 mainly due to lower dividend income received during the current period.

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Profit Before Tax

Profit before tax of the Group for the third quarter of 2017 grew by 18.1% to RM115.0 million from RM97.4 million in the corresponding quarter in 2016. The vast improvement in profit was partly due to its strong growth in revenue by 11.9%. The growth was largely contributed by profit from the general insurance segment, which increased by 20.4% to RM102.8 million from RM85.4 million in the third quarter of 2016. Underwriting profit for the quarter rose by 19.9% to RM83.6 million from RM69.7 million previously, mainly driven by 16.3% growth in net earned premium income and higher release of UPR during the quarter due to revised accounting estimate in the calculation of UPR as well as lower combined ratio of 63.9%. The investment holding segment increased marginally to RM12.2 million from RM12.0 million in the corresponding period in 2016.

Profit before tax of the Group for the nine months period ended 30 September 2017 declined by 28.9% to RM293.0 million from RM412.1 million registered in the corresponding period in 2016. The decrease came from the investment holding segment, which recorded a lower profit before tax of RM29.1 million from RM178.6 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 Group profit before tax for the corresponding period last year would be RM261.7 million if it was adjusted to exclude the one-off realised gains of RM150.4 million. This translates to a RM28.8 million or 11.0% increase in Group profit before tax for the period under review. Despite facing new competitive pressure arising from the liberalisation, our general insurance segment improved commendably to contribute RM263.9 million to the Group profit before tax from RM233.5 million in the corresponding period in 2016, representing an increase of 13.0%. This was on the back of a strong underwriting performance. The insurance segment reported an improved combined ratio of 65.9% from 66.4% previously. With lower combined ratio coupled with higher net earned premium of RM623.1 million, underwriting profit for the period recorded an impressive increase of 13.4% to RM212.6 million from RM187.4 million previously. Its claims incurred and management expenses ratios improved marginally to 40.0% and 21.4% respectively.

Business operation in Malaysia contributed 97.7% and 97.1% of the Group's total profit before tax in the third quarter of 2017 and current period under review respectively. Its foreign business operation remains small, contributed less than 3.0% to the Group's total profit before tax.

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 4: Other comprehensive income for current quarter and financial period to date

| | Individual Period | | Cumulative Period | |
|--|---------------------------------------|---|---------------------------------------|--|
| | Current Year Quarter Ended 30.09.2017 | Preceding Year Corresponding Quarter Ended 30.09.2016 | Current Year To Date Ended 30.09.2017 | Preceding Year Corresponding Period Ended 30.09.2016 |
| RM' mil | | | | |
| Other comprehensive income | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | |
| Foreign currency translation differences for foreign operation | - | 0.5 | (1.5) | (1.6) |
| Fair value of available-for-sale financial assets | | | | |
| - Gain arising during the period | 5.4 | 17.9 | 33.8 | 61.4 |
| - Reclassification to profit or loss | - | - | (2.5) | (149.5) |
| | 5.4 | 17.9 | 31.3 | (88.1) |
| | 5.4 | 18.4 | 29.8 | (89.7) |
| Tax effect on net gain / (loss) on fair value of available-for-sale financial assets | - | - | 0.1 | (0.1) |
| Total other comprehensive income / (loss) for the period, net of tax | 5.4 | 18.4 | 29.9 | (89.8) |

The Group's total other comprehensive income for the nine months ended 30 September 2017 was at RM29.9 million as compared to loss of RM89.8 million in the corresponding period in 2016, mainly due to the disposal of equity investment classified as available-for-sale in 2016. Upon the sale, the cumulative fair value gain of RM149.5 million previously recognised in other comprehensive income was reclassified to profit or loss.

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 5: Review of assets and liabilities

| RM' mil | As at | As at | Changes | |
|-------------------|------------|------------|---------|--------|
| | 30.09.2017 | 31.12.2016 | Amount | % |
| Total assets | 3,868.7 | 3,656.1 | 212.6 | 5.8% |
| Total liabilities | 2,042.9 | 1,818.8 | 224.1 | 12.3% |
| Total equity | 1,825.8 | 1,837.3 | (11.5) | (0.6%) |

Total assets

As at 30 September 2017, the Group's total assets increased by RM212.6 million to RM3,868.7 million from RM3,656.1 million as at 31 December 2016. The total assets growth in 2017 was mainly attributed by the increase in loans and receivables and insurance receivables. The increase was primarily driven by the growth in gross premium income of 12.6% to RM1,139.5 million. The general insurance segment accounted for 73.0% of the Group's total assets as at 30 September 2017.

Total liabilities

As at 30 September 2017, total liabilities of the Group increased by RM224.1 million to RM2,042.9 million as compared to RM1,818.8 million as at 31 December 2016. The growth was mainly due to increase in insurance contract liabilities and insurance payables of its general insurance segment.

Total equity

The Group's total equity as at 30 September 2017 decreased by 0.6% or RM11.5 million to RM1,825.8 million from RM1,837.3 million in 2016. This is mainly due to the payment of dividends amounting to RM272.2 million from the distributable retained earnings and net off with the profit of RM230.8 million for the current period under review. During the period under review, non-distributable reserves increased by RM29.9 million mainly due to improvements in the market value of its available-for-sale financial assets.

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 6: Breakdown of Key Financial Information of Foreign Operation - Lonpac Insurance Bhd (Singapore Branch)

| | Functional Currency SGD'000 | Reporting Currency RM'000 |
|--|-----------------------------------|---------------------------------|
| Exchange rate as at 30.09.2017 SGD1.00 = RM3.11 | | |
| Gross earned premiums | 17,284 | 53,755 |
| Investment income | 920 | 2,860 |
| Total revenue | 18,204 | 56,615 |
| Profit before tax | 2,075 | 6,455 |
| Profit after tax | 2,005 | 6,234 |
| Total assets | 94,505 | 293,910 |
| Total liabilities | 52,669 | 163,801 |

For consolidation purpose, the financial statements of Singapore Branch of its subsidiary, Lonpac Insurance Bhd are translated from SGD to RM at exchange rate at the end of the reporting period.

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Table 7: Review of statement of cash flow

| RM' mil | Current Year To Date Ended 30.09.2017 | Preceding Year Corresponding Period Ended 30.09.2016 |
|--|--|--|
| Profit after tax | 230.8 | 355.8 |
| Net cash flows generated from / (used in) operating activities | 218.8 | (284.1) |
| Net cash flows used in investing activities | (3.7) | (2.2) |
| Net cash flows used in financing activities | (272.2) | (249.0) |
| Net decrease in cash and cash equivalents | (57.1) | (535.3) |
| Cash and cash equivalents at beginning of year | 332.5 | 952.3 |
| Effect of movement in exchange rates | - | (0.5) |
| Cash and cash equivalents at end of period | 275.4 | 416.5 |

LPI Group has held a strong reputation for its ability to generate sustainable profits and its wholly-owned insurance subsidiary, Lonpac Insurance Bhd (Lonpac) is generally one of the most profitable general insurance company in Malaysia.

For the nine months period ended 30 September 2017, the analysis of the cash flow statement of the Group shows that the profitability and operating cash flow of the Group remains healthy and strong. The ratio of cash flow from operating activities to net income was 94.8% (RM218.8 million / RM230.8 million). The ratio of 94.8% indicates the ability of the Group to generate sufficient cash flow from its core operating activities to meet its obligations including insurance contracts and to pay dividend. It is worth to note that for the period under review, the group has increased its loans and receivable by RM199.2 million to RM1,455.9 million from RM1,256.7 million as at 31 December 2016, the increase was mainly due to renewal or new placement of fixed deposits for more than 3 months.

B1. REVIEW OF GROUP PERFORMANCE (CONTINUED)

Review of statement of cash flow (continued)

The Group has relatively low spending on plant and equipments due to its core business are underwriting of general insurance. The Group's capital expenditures for the 9 months period under review was RM3.7 million. The Group's main investing activities are investment on information technology and purchase of computer equipments.

The Group's balance sheet is not laden with debts other than insurance contract liabilities which increased by RM104.4 million to RM1,713.9 million for the nine months period ended 30 September 2017. The Group has generated sufficient free cash flow to pay a current dividend of 27.0 sen per share amounting to RM89.6 million in respect of the financial year ending 31 December 2017 on 2 August 2017.

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

| | Current Year Quarter Ended 30.09.2017 | Immediate Preceding Quarter Ended 30.06.2017 | Changes | |
|---|---|--|-------------|--------------|
| | | | Amount | % / PPT |
| Gross earned premiums (RM'mil) | 378.9 | 336.7 | 42.2 | 12.5% |
| Investment income (RM'mil) | 27.9 | 16.0 | 11.9 | 74.4% |
| Total revenue (RM'mil) | 406.8 | 352.7 | 54.1 | 15.3% |
| Operating profit (RM'mil) | 114.5 | 88.7 | 25.8 | 29.1% |
| Profit before tax (RM'mil) | 115.0 | 89.2 | 25.8 | 28.9% |
| Profit attributable to owners of the Company (RM'mil) | 92.2 | 68.1 | 24.1 | 35.4% |
| Net return on equity (%) | 5.0 | 3.7 | - | 1.3 PPT |
| Earnings per share (sen) | 27.76 | 20.51 | 7.25 | 35.3% |
| General insurance gross written premiums (RM'mil) | 416.6 | 307.2 | 109.4 | 35.6% |
| General insurance net earned premiums (RM'mil) | 231.5 | 212.5 | 19.0 | 8.9% |
| General insurance underwriting profit (RM'mil) | 83.6 | 70.6 | 13.0 | 18.4% |
| General insurance claims incurred ratio (%) | 40.3 | 39.7 | - | 0.6 PPT |
| General insurance management expenses ratio (%) | 18.6 | 21.6 | - | (3.0) PPT |
| General insurance commission ratio (%) | 5.0 | 5.5 | - | (0.5) PPT |
| General insurance combined ratio (%) | 63.9 | 66.8 | - | (2.9) PPT |

For the third quarter ended 30 September 2017, the Group recorded a higher profit before tax of RM115.0 million as compared to RM89.2 million in the preceding quarter ended 30 June 2017. The improved performance was due to better underwriting experience and higher investment income received.

B3. CURRENT YEAR PROSPECTS

- a) Going forward, we foresee technology as a major factor which will dramatically affect the insurance industry, with the emergence of disruptive insurtech as well as a shift in customer expectations. In recognition of this, Lonpac has established a Digital Strategy Department to leverage on technology to distribute its products and to further enhance its services to our customers. We believe that investment in technology will enable us to further expand our business segment and strengthen our market position.

With the improving Malaysian economy and the continuing infrastructure development by the Malaysian government, we are confident that the Group will be able to report an improved performance for the last quarter of the year.

- a) 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 Period | | Cumulative Period | |
|--|---------------------------------------|---|---------------------------------------|--|
| | Current Year Quarter Ended 30.09.2017 | Preceding Year Corresponding Quarter Ended 30.09.2016 | Current Year To Date Ended 30.09.2017 | Preceding Year Corresponding Period Ended 30.09.2016 |
| Profit before tax | 115,034 | 97,404 | 293,044 | 412,059 |
| Income tax: | | | | |
| Current tax charge | 24,271 | 21,233 | 63,654 | 57,883 |
| Over provision in prior year | (1,407) | (1,597) | (1,407) | (1,597) |
| | 22,864 | 19,636 | 62,247 | 56,286 |
| Effective tax rate on current tax charge | 21% | 22% | 22% | 14% |

The effective tax rate on the current tax charge of the Group for the current quarter and financial period ended 30 September 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 2 October 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 September 2017.

B9. DISCLOSURE OF DERIVATIVES

A disclosure on outstanding derivatives (including financial instruments designated as hedging instruments) as at 30 September 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 September 2017.

B11. CHANGES IN MATERIAL LITIGATION

There were no pending material litigations since the last annual balance sheet date up to 2 October 2017, which is not earlier than 7 days from date of issue of this quarterly report.

B12. DIVIDEND

The total dividend for the nine (9) months ended 30 September 2017 was 27.00 sen single tier per share.

B13. EARNINGS PER SHARE

a) Basic earnings per share

| | Individual Period | | Cumulative Period | |
|---|----------------------------|--|----------------------------|---|
| | Current Year Quarter Ended | Preceding Year Corresponding Quarter Ended | Current Year To Date Ended | Preceding Year Corresponding Period Ended |
| | 30.09.2017 | 30.09.2016 | 30.09.2017 | 30.09.2016 |
| Profit after tax (RM'000) | 92,170 | 77,768 | 230,797 | 355,773 |
| Weighted average no. of ordinary shares in issue ('000) | 331,986 | 331,986 | 331,986 | 331,986 |
| Basic earnings per share (sen) | 27.76 | 23.43 | 69.52 | 107.17 |

b) Diluted earnings per share. – Not Applicable.

B14. PROFIT FOR THE PERIOD

| | Individual Period | | Cumulative Period | |
|---|----------------------------|--|----------------------------|---|
| | Current Year Quarter Ended | Preceding Year Corresponding Quarter Ended | Current Year To Date Ended | Preceding Year Corresponding Period Ended |
| | 30.09.2017 | 30.09.2016 | 30.09.2017 | 30.09.2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit for the period is arrived at after charging: | | | | |
| Depreciation of plant and equipment (N1) | 827 | 907 | 2,316 | 2,691 |
| Allowance for / (write back of) impairment loss on other receivables (N1) | 408 | - | 408 | (1) |
| Net foreign exchange loss / (gain) (N1) | 31 | (168) | 407 | (151) |
| Impairment loss on quoted investment (N4) | - | - | - | 806 |
| and after crediting: | | | | |
| Interest income (N2) | 15,170 | 14,247 | 44,816 | 39,239 |
| Dividend income (N2) | 12,470 | 12,794 | 27,735 | 32,764 |
| Rental income (N2) | 230 | 211 | 713 | 705 |
| Write back of / (allowance for) impairment loss on insurance receivables (N1) | 1,064 | (1,160) | 3,095 | (3,535) |
| Gain on disposal of quoted and unquoted investments (N3) | - | - | 2,513 | 150,356 |

B14. PROFIT FOR THE PERIOD (CONTINUED)

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

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

Trade receivables

The credit terms of trade receivables granted to related parties are no different from those granted to non-related parties.

A trade receivable is deemed past due when the counter party has failed to make payment when the outstanding amount are contractually due.

Age analysis of trade receivables past due but not impaired:

| | <30 days RM'000 | 31 - 60 Days RM'000 | 61 - 90 days RM'000 | 91 - 180 days RM'000 | >180 days RM'000 | Total RM'000 |
|-----------------------|-----------------------------------|------------------------------------|------------------------------------|-------------------------------------|------------------------------------|-------------------------|
| 30.09.2017 | | | | | | |
| Insurance receivables | 12,472 | 7,508 | 5,564 | 1,999 | (822) | 26,721 |
| 31.12.2016 | | | | | | |
| Insurance receivables | 7,677 | 3,981 | 944 | 1,535 | 1,190 | 15,327 |

The past due trade receivables above are collectable.

At 30 September 2017, there was a write back of impairment loss of RM3,095,000 for insurance receivables during the current period under review. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

| | Insurance Receivables | |
|---|--------------------------|----------------------|
| | 30.09.2017 RM'000 | 31.12.2016 RM'000 |
| At 1 January | 7,640 | 3,281 |
| (Write back) / charge for the period | (3,095) | 4,339 |
| Bad debts written off from impairment allowance | (4,519) | - |
| Effect of movement in exchange rates | 12 | 20 |
| At 30 September | <u>38</u> | <u>7,640</u> |

B16. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS

The breakdown of the retained profits of the Group as at 30 September 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 30.09.2017 RM'000 | As at 31.12.2016 RM'000 |
|---|-------------------------------|-------------------------------|
| Total retained profits of the Group: | | |
| - Realised | 789,798 | 833,020 |
| - Unrealised | 15,117 | 15,352 |
| | <u>804,915</u> | <u>848,372</u> |
| Total share of retained profits from associated company | | |
| - Realised | 12,499 | 10,473 |
| | <u>817,414</u> | <u>858,845</u> |
| Less: Consolidation adjustments | (100,447) | (100,447) |
| Total retained profits as per statement of financial position | <u><u>716,967</u></u> | <u><u>758,398</u></u> |

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.

B17. DISCLOSURE ON QUALIFICATION OF AUDIT REPORT

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