



LPI CAPITAL BHD
(4688-D)

BRAND THAT IS
ENDURING

ANNUAL REPORT 2017



THIS ANNUAL REPORT
IS AVAILABLE ON THE WEB AT
www.lonpac.com



To contact us,
please refer to the
Corporate Information
on page 12 and the Group
Corporate Directory on
pages 262 to 264



COVER RATIONALE

THE COVER FOR THIS YEAR'S
LPI ANNUAL REPORT EMBODIES
THE METAMORPHOSE JOURNEY OF
THE GROUP TO BUILD A
“BRAND THAT IS ENDURING”

WE BELIEVE ACHIEVEMENTS ARE
CHECKPOINTS IN OUR JOURNEY TO
ENSURE CONTINUOUS RESULTS.

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LPI CAPITAL BHD // ANNUAL REPORT 2017

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Form of Proxy



VISION

To be the preferred premier insurance solutions provider.

CORPORATE MISSION

Our primary focus is to provide innovative insurance products supported by customer-centric service excellence. We aim to provide our insured an easy channel for all their insurance needs.

Our brand is representative of the way we conduct ourselves and the approach to organisational development. We aim to create an environment for our people that is fair, caring and accountable.

Our drive is to create value for our stakeholders, anchored to our vision and corporate mission. We strive for sustainability through financial and technical strength based on recognised and proven standards.

OUR **CORE** VALUES

Represent the way we conduct ourselves and our responsibilities to our insured, our stakeholders, our people and our community.

L

ASPIRE TO BE THE LEADER IN THE INSURANCE INDUSTRY IN MALAYSIA AND IN THE REGION.

O

COMMITMENT TO OPERATIONAL EXCELLENCE GUIDED BY INTEGRITY AND PROFESSIONALISM.

N

CREATING NEW AND INNOVATIVE MARKET-RELEVANT INSURANCE PRODUCTS.

P

PROVIDING A FAIR, CARING AND MERIT BASED WORKING ENVIRONMENT.

A

ADOPTING A PROACTIVE AND ACCOUNTABLE APPROACH TO STAKEHOLDERS.

C

CRAFTING A PREMIER INSURANCE BRAND IDENTIFIED FOR GOOD CORPORATE GOVERNANCE AND CORPORATE RESPONSIBILITY.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 57th Annual General Meeting of LPI Capital Bhd will be held at Sabah Room, Basement II, Shangri-La Hotel Kuala Lumpur, 11 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia on Tuesday, 27 March 2018 at 11.00 a.m. for the following purposes:

AGENDA

As Ordinary Business

- | | | |
|----|---|---|
| 1. | To lay before the meeting the Audited Financial Statements for the financial year ended 31 December 2017 and the Reports of the Directors and Auditors thereon. | <i>(Please refer to Explanatory Note)</i> |
| 2. | To re-elect the following Directors who retire by rotation in accordance with Article 97 of the Company's Articles of Association (Constitution) and who being eligible offer themselves for re-election: | |
| | i. Tan Sri Dato' Sri Dr. Teh Hong Piow | <i>Ordinary Resolution 1</i> |
| | ii. Mr. Tee Choon Yeow | <i>Ordinary Resolution 2</i> |
| 3. | To approve the payment of Directors' fees of RM965,000 for the financial year ended 31 December 2017. | <i>Ordinary Resolution 3</i> |
| 4. | To re-appoint Messrs. KPMG PLT as Auditors of the Company for the financial year ending 31 December 2018 and to authorise the Directors to fix the Auditors' remuneration. | <i>Ordinary Resolution 4</i> |

By Order of the Board

KONG THIAN MEE

MAICSA 7024050

Company Secretary

Kuala Lumpur

26 February 2018

NOTES:

1. Only depositors whose names appear in the Record of Depositors as at 19 March 2018 be regarded as members and entitled to attend, speak and vote at the meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint not more than 2 proxies (or in the case of a corporation, a duly authorised representative) to attend and vote in his stead. A proxy may but need not be a member of the Company.
3. Where a member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than 2 proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.
4. Where a member appoints 2 proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
5. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act, 1991 which is exempted from compliance with the provisions of subsection 25A(1) of the said Act.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
7. The instrument appointing a proxy must be deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, Tricor Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than 48 hours before the time set for the holding of the meeting or at any adjournment thereof.
8. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice of Meeting will be put to vote by poll.

EXPLANATORY NOTE:

The Audited Financial Statements are for discussion only as they do not require shareholders' approval pursuant to the provision of Sections 248(2) and 340(1)(a) of the Companies Act 2016. Hence, this matter will not be put for voting.

FINANCIAL CALENDAR

FINANCIAL YEAR 2017

ANNOUNCEMENT OF CONSOLIDATED RESULTS

10 APRIL 2017,
MONDAY

ANNOUNCEMENT DATE



Unaudited results for the
1st quarter ended 31 March 2017

10 JULY 2017,
MONDAY

ANNOUNCEMENT DATE



Unaudited results for the
2nd quarter ended 30 June 2017

9 OCTOBER 2017,
MONDAY

ANNOUNCEMENT DATE



Unaudited results for the
3rd quarter ended 30 September 2017

10 JANUARY 2018,
WEDNESDAY

ANNOUNCEMENT DATE



Audited results for the
4th quarter and financial year ended
31 December 2017

DIVIDENDS

**10 JULY 2017,
MONDAY**

NOTICE DATE

**25 JULY 2017,
TUESDAY**

ENTITLEMENT DATE

**2 AUGUST 2017,
WEDNESDAY**

INTERIM DIVIDEND PAYMENT DATE

→
First interim single tier dividend of
27 sen per ordinary share

**10 JANUARY 2018,
WEDNESDAY**

NOTICE DATE

**25 JANUARY 2018,
THURSDAY**

ENTITLEMENT DATE

**6 FEBRUARY 2018,
TUESDAY**

INTERIM DIVIDEND PAYMENT DATE

→
Second interim single tier dividend
of 45 sen per ordinary share

ANNUAL GENERAL MEETING

**26 FEBRUARY 2018,
MONDAY**

NOTICE OF 57TH ANNUAL GENERAL MEETING

**27 MARCH 2018,
TUESDAY**

57TH ANNUAL GENERAL MEETING

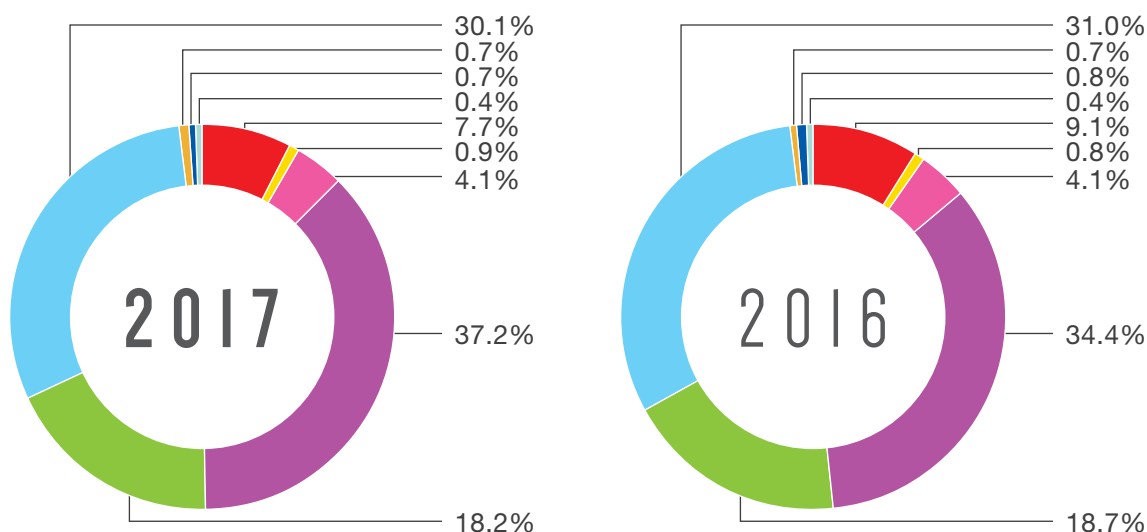
PERFORMANCE AT A GLANCE

GROUP

FINANCIAL HIGHLIGHTS	2017	2016
OPERATING RESULTS (RM'000)		
Operating Revenue	1,470,631	1,378,892
Gross Written Premiums	1,421,339	1,278,339
Operating Profit	401,263	516,502
Profit Before Tax	403,749	518,925 ^{N1}
KEY STATEMENTS OF FINANCIAL POSITION DATA (RM'000)		
Total Assets	3,814,615	3,656,113
Total Liabilities	1,893,704	1,818,797
Total Equity	1,920,911	1,837,316
FINANCIAL RATIOS (%)		
<i>Profitability Ratios</i>		
Return on Equity	16.3	23.8
Return on Assets	8.2	12.0
Operating Margin	27.3	37.5
Net Claims Incurred	38.5	38.3
<i>Productivity Ratios</i>		
Gross Written Premiums Income per Employee (RM'000)	1,799	1,656
No. of Policies Issued per Employee	2,399	2,315

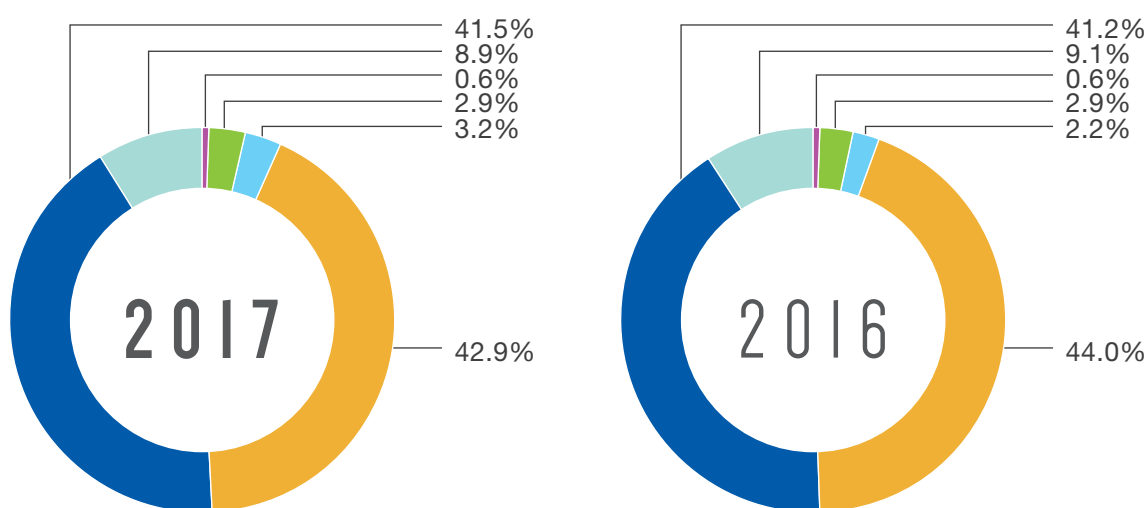
^{N1} – The Group profit before tax for 2016 would be RM368.5 million if it was adjusted to exclude the one-off realised gains of RM150.4 million arising from the disposal of long term equity investment.

SIMPLIFIED GROUP STATEMENTS OF FINANCIAL POSITION



ASSETS

- Plant and equipment
- Investment properties
- Investment in associated company
- Other investments
- Reinsurance assets
- Loans and receivables, excluding insurance receivables
- Insurance receivables
- Deferred acquisition costs
- Cash and cash equivalents



EQUITY & LIABILITIES

- Share capital
- Reserves
- Insurance contract liabilities
- Insurance payables
- Deferred tax liabilities, borrowings and other payables
- Tax payable

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Independent Non-Executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow

PSM, SSAP, SPMJ, SIMP, SSIJ, DSAP,
DPMJ, Datuk Kurnia Sentosa Pahang, JP
Hon LLD (M'sia); EFMIM (M'sia); Fellow, AICB;
FCIB (UK); FGIA (Aust); CCMI (UK);
FICM (UK); FInstAM (UK)

Independent Non-Executive Co-Chairman

Mr. Tee Choon Yeow

B.Com.; CA (NZ); CA (M'sia); FCPA (Aust)

Chief Executive Officer/ Executive Director

Mr. Tan Kok Guan

Chartered Insurer
B.Sc. (Hons.); MBA; ACII; AMII

Independent Non-Executive Director

Mr. Lee Chin Guan

B.Sc. (Hons); BCL (Oxon); LLM (Cantab);
JD (Chicago-Kent); Barrister-at-Law
(Middle Temple)

Non-Independent Non-Executive Director

Mr. Quah Poh Keat

FCCA (UK); CA (M'sia); CPA (M'sia);
ACMA (UK); Fellow MIT (M'sia)

Independent Non-Executive Director

Ms. Chan Kwai Hoe

BEc (Hons) Analytical Econs

COMPANY SECRETARY

Ms. Kong Thian Mee

Chartered Secretary (FCIS)
MAICSA 7024050
Tel No. : (03) 2262 8688
Email : lpicosec@lonpac.com

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn Bhd

OFFICE:

Unit 32-01, Level 32, Tower A,
Vertical Business Suite,
Avenue 3, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur, Malaysia.
Tel No. : (03) 2783 9299
Fax No. : (03) 2783 9222
Email : is.enquiry@my.tricorglobal.com

CUSTOMER SERVICE CENTRE:

Unit G-3, Ground Floor, Vertical Podium,
Avenue 3, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur, Malaysia.

HEAD OFFICE

6th Floor, Bangunan Public Bank,
6, Jalan Sultan Sulaiman,
50000 Kuala Lumpur, Malaysia.
Tel No. : (03) 2262 8688/ 2723 7888
Fax No. : (03) 2078 7455

REGISTERED OFFICE

6th Floor, Bangunan Public Bank,
6, Jalan Sultan Sulaiman,
50000 Kuala Lumpur, Malaysia.
Tel No. : (03) 2262 8688/ 2723 7888
Fax No. : (03) 2078 7455

WEBSITE

www.lonpac.com

AUDITORS

Messrs KPMG PLT
Chartered Accountants
Level 10, KPMG Tower,
8, First Avenue,
Bandar Utama,
47800 Petaling Jaya,
Selangor, Malaysia.
Tel No. : (03) 7721 3388
Fax No. : (03) 7721 3399

STOCK EXCHANGE LISTING

Listed on the Main Market of Bursa Malaysia
Securities Berhad
Listing Date : 8 January 1993
Stock Name : LPI
Stock Code : 8621

INVESTOR RELATIONS

Mr. Tan Kok Guan

Chief Executive Officer/ Executive Director
LPI Capital Bhd
Tel No. : (03) 2034 2670
Email : kgtan@lonpac.com

Mr. Looi Kong Meng

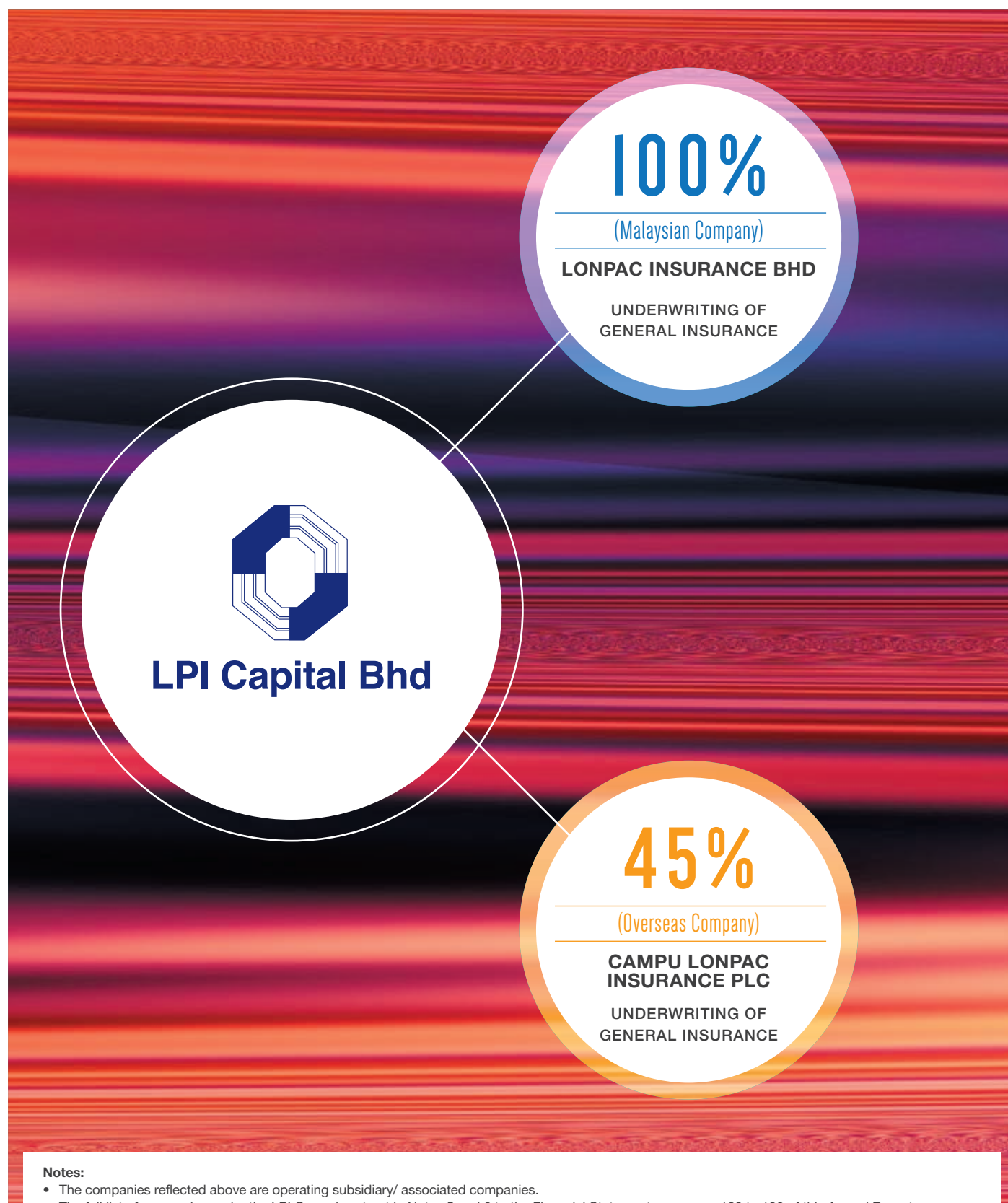
Chief Executive Officer / Executive Director
Lonpac Insurance Bhd
Tel No. : (03) 2262 8620
Email : kmlooi@lonpac.com

AGM HELPDESK

Tel No. : (03) 2262 8687/ 2262 8686/
2262 8675
Fax No. : (03) 2078 7455
Email : lpicosec@lonpac.com

GROUP CORPORATE STRUCTURE

AS AT 31 DECEMBER 2017



CORPORATE PROFILE

ABOUT US

LPI Capital Bhd (“LPI”), an investment holding company listed on the Malaysian stock exchange, provides general insurance coverage through its wholly-owned subsidiary Lonpac Insurance Bhd (“Lonpac”). Lonpac is among the market leaders in its field with a 8.07%¹ share of Malaysia’s general insurance business. LPI, together with Lonpac and its associated company, collectively form the LPI Group (“LPI Group” or “the Group”).

Previously operating as the London & Pacific Insurance Company Bhd, LPI was established on 24 May 1962 as a private limited company and subsequently registered as an approved insurer on 9 April 1963 under the Malaysian Insurance Act 1963. It was first publicly listed on 8 January 1993 on the Second Board of the Malaysian stock exchange and transferred to the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) on 17 January 1997.

LPI’s insurance business was transferred to Lonpac through a rationalisation exercise on 1 May 1999. A cornerstone of the Malaysian insurance business, LPI has weathered numerous challenges, both domestic and global, to remain a leading insurance provider over these past 55 years. The Company’s success is a testament to the strength and vision of its Management and Board of Directors, and to the continued loyalty and support of both staff and stakeholders.

LPI presently operates in three Southeast Asian markets: in Malaysia and Singapore through Lonpac, and in Cambodia through its 45%-owned Campu Lonpac Insurance Plc. LPI is focused on ensuring customer satisfaction and creating shareholder value, which are key principles in all its operations.

CREATING VALUE IN THE NEW MALAYSIAN INSURANCE LANDSCAPE

The Malaysian insurance industry continued to evolve in 2017 in line with Bank Negara Malaysia’s (“BNM”) phased liberalisation plan. One of the key changes introduced this past year was the liberalisation of premium pricing for comprehensive motor policies as well as for Motor Third Party Fire and Theft products. Under the new regime, individual insurers and takaful operators set the prices for these segments of their business based on their own rating models in order to drive fairer pricing, greater innovation and more sustainable motor insurance protection for consumers over the long-term.

Lonpac has kept abreast of these developments and introduced new products that deliver value to its customers, operations and LPI’s shareholders. The measures taken to improve its operations has also enabled Lonpac to provide coverage to its customers at competitive prices whilst remaining within prudential risk guidelines. In addition, it has also seized on the opportunity to grow its insurance business by leveraging on its market-leading strengths to distribute and cross-sell new products. The Company’s business focus remains anchored on enhancing

growth, maximising profitability, improving shareholders’ returns, raising market share and improving performance based on international benchmarks.

While uncertainties arising from the new regulatory regime remain, Lonpac is confident that it has deployed the right strategy to make the most of new opportunities while keeping well within the boundaries of good prudential risk management. This is especially important given the continuing volatility of global financial markets and growing competition within the domestic environment. Nevertheless, Lonpac takes its role as a provider of financial security and protection very seriously, and has taken all necessary steps to ensure that it is always ready to fulfil its obligations to its customers.

On the topic of growing competition, the Malaysian insurance industry has seen accelerated growth over the last few years with new competitors entering the market to take advantage of the new liberalised regime. Meanwhile, others have merged with foreign insurers to take advantage of economies of scale as well as the benefits that a more expansive balance sheet has to offer.



¹ ISM Statistical Bulletin for the period January – September 2017.



Despite growing competition, LPI Group remains committed to its business strategy of organic growth, focusing on improving products and services to provide customers with more attractive value propositions. The Group's financial and business performance in 2017 is evidence that the strategy continues to pay dividends, and the Company is committed to staying the same course going forward. At the same time, the Group will

focus on strengthening its sustainability strategy in line with the principles of good governance and Bursa Securities' guidelines.

LPI Group's key value propositions for its customers are as follows:

- Providing a diverse product and service range
- Maintaining an extensive distribution network
- Ensuring superior delivery standards
- Maintaining a strong financial rating

Providing a Diverse Product and Service Range

LPI Group has continuously expanded the range of general insurance products and services offered by its insurance subsidiary, Lonpac. New product launches take into consideration the needs of customers as well as changes in the operating environment, such as the new liberalised regime in Malaysia. While certain classes of business have been prioritised to accelerate growth, the LPI Group remains committed to providing its customers with all necessary coverage to ensure their adequate protection in all key areas.

Lonpac presently offers insurance products in the following areas:

- Employee Benefits
- Health Insurance
- Liability Insurance
- Motor Insurance

- Marine Insurance
- Pecuniary Insurance
- Personal Accident Insurance
- Project Insurance
- Property Insurance
- Trade Credit Insurance

The wide product range has given Lonpac an extensive reach into various markets, demographic groups and business classes. Management is committed to continue building expertise in all their business areas and has reached out to foreign partners and reinsurers to ensure that the Group's customers receive the best coverage at competitive prices. Additionally, Lonpac also offers customers a number of complimentary support services to help them during their time of need. These services include:

- **Lonpac E-Assist:** A 24-hour emergency car assistance service that provides minor roadside repairs, emergency towing services, car rental services and arrangements for hotel accommodation for Lonpac's comprehensive private car insurance policyholders.
- **Lonpac Home-Assist:** A referral assistance programme providing home-related services to all Lonpac's Houseowner and Householder policyholders.
- **Lonpac Travel Assist:** A medical and emergency assistance programme provided to the persons covered under Lonpac's TravelNet, BizTravel and Easy Travel policies.

Lonpac also has in place a Customer Relationship Management ("CRM") system to support its customer-facing operations. The CRM system provides staff with an integrated portfolio of customer details designed to help them create additional value for customers by identifying gaps in their coverage or areas where they can be better served. Customer data and confidential information is maintained in a secure environment at all times to ensure that only persons with the right authorisation have access to this information.

Lonpac is committed to the continuous innovation of its products and services

to meet growing customer expectations. One area that has become increasingly popular with new customer demographics is the online space, which has become the medium of choice for younger, technologically savvy customers. To meet their demand to execute transactions over the internet, Lonpac is constantly upgrading its systems to determine how it can leverage on digital to transform its customer servicing operations.

Maintaining an Extensive Distribution Network

Lonpac maintains an extensive distribution network reaching out to all segments of society and customer groups. At the core of the network is its substantial agency force, which is a key contributor to its success. Lonpac's agents have been trained and incentivised to provide customers with personal attention in line with its customer-centric philosophy prioritising customer satisfaction. The customer-oriented approach is a cornerstone of all new products and services that are developed with the customer in mind. All Lonpac's agents are registered with Persatuan Insurans Am Malaysia ("PIAM").

Lonpac's in-house marketing team also works constantly to identify new opportunities from existing distributing channels. The marketing team is developed internally under a rigorous talent development programme that was designed to meet both internal and external operating benchmarks. The marketing team is also responsible for liaising with customers, to seek feedback and respond proactively to comments to improve operations and better serve their insurance needs.

The spine of Lonpac's distribution network is its information technology ("IT") system, which is responsible for optimising processes and identifying new business opportunities through data analytics. The Group has invested significantly into the regular upgrade of its IT infrastructure and systems to ensure peak efficiency whilst maintaining a high level of data security. The use of IT has helped lower the Group's operating ratio thereby improving profitability.

CORPORATE PROFILE

At present, Lonpac operates 21 branches in Malaysia and one branch in Singapore. It also provides insurance solutions in Cambodia through its 45%-owned entity, Campu Lonpac Insurance Plc.

Ensuring Superior Delivery Standards

Lonpac's track record of excellent customer service is underpinned by a corporate culture that has always prioritised customer needs since LPI's start in 1962. All staff have been trained to observe the highest level of professionalism in line with mission goals and are expected to abide by these standards at all times. They are given all necessary training to reach their full potential during their time with Lonpac, and this translates into a market leading level of customer service.

Lonpac also established a Customer Service Centre in 2004 to manage all queries and customer concerns in order to better serve customers. Information is available online through its comprehensive web portal, which doubles as a self-service platform for customers to manage their policies, share feedback and make inquiries. The web platform is regularly updated with up-to-date information on policies and product offerings, and also provides corporate information to investors and shareholders as part of Lonpac's commitment to transparency and good corporate governance.

Maintaining a Strong Financial Rating

Global insurance rating agency A.M. Best Asia-Pacific Limited ("A.M. Best") reaffirmed Lonpac's financial strength rating of A- (Excellent) and "a-" issuer credit rating on 27 September 2017, with a positive outlook attached to both ratings. The rating affirmations reflect our strong risk-adjusted capitalisation and commendable track record of operating performance. A.M. Best noted that Lonpac generates one of the highest underwriting margins in Malaysia's non-life market and its performance has been very strong compared with its peers based on a variety of measures.

AWARDS AND ACCOLADES

LPI Group has amassed a number of awards and accolades in recognition of its strong, sustained financial performance and excellence in key financial areas including corporate governance. These awards stand as a testament to the Group's sound corporate strategy and its continued commitment to quality.

Minority Shareholder Watchdog Group ("MSWG") – ASEAN Corporate Governance Recognition (2017)

LPI was conferred with the following awards in recognition of its commitment to corporate governance best practices and disclosures:

- Excellence Award for Overall Corporate Governance & Performance (3rd in Overall Category)
- Industry Excellence Award – Financial
- Excellence Award for Long-Term Value Creation

The Edge Billion Ringgit Club Corporate Awards (2010 – 2017)

LPI received the Gold Award on Highest Growth in Profit After Tax Over Three Years and Silver Award on Highest Returns to Shareholders Over Three Years under the Finance Sector category below RM10 billion market capitalisation of The Edge Billion Ringgit Club Corporate Awards 2017. LPI has been admitted as a member of The Edge Billion Ringgit Club since it was first launched in 2010. The Billion Ringgit Club was established to recognise Malaysia's biggest and best performing companies.

Best Brands in Financial Services – General Insurance (2011 – 2017)

Lonpac received The BrandLaureate Most Sustainable Brand Awards 2016-2017 for brand excellence in General Insurance from Asia Pacific Brands Foundation. The award recognises Lonpac's strong brand leadership and performance, and its ability to deliver on brand promises. This is the seventh consecutive year that Lonpac has received the award in recognition of its superlative performance.

Majikan Terbaik Wilayah Persekutuan Kuala Lumpur (2017)

Kumpulan Wang Simpanan Pekerja ("KWSP") awarded Lonpac with Majikan Terbaik Wilayah Persekutuan Kuala Lumpur 2017 in recognition of its excellent monthly contribution, constant usage of e-Payment, clean record on Unpostable Contribution, complaint-free from employees and full compliance on other KWSP procedures.

Malaysia – ASEAN Corporate Governance Transparency Index, Findings and Recognition (2013 – 2016)

LPI has received numerous awards from the MSWG in recognition of its commitment to corporate governance best practices and disclosures. The awards include:

- Excellence Award for Top Corporate Governance ("CG") and Performance (Overall Category) in 2016
- Industry Excellence – Financial in 2016
- Merit Award for CG Disclosures in 2015 & 2016
- Top 10 in Top Corporate Governance Recognition Category in 2014
- Merit Award for Most Prompt Annual General Meeting ("AGM") in 2013 and 2015

RSA Global Network Awards (2013, 2016)

Lonpac was awarded the RSA Global Network Bronze Achievement Award 2016. The award recognises Lonpac's outstanding services to and support of the RSA Global Network. Lonpac also received the RSA Global Network Recognition Award in 2013.

Chubb Multinational Solutions Outstanding Affiliate World-Class Service Award (2007 – 2015)

The Chubb Multinational Solutions Outstanding Affiliate World-Class Service Award is an annual recognition awarded by the Chubb Group of insurance companies. Lonpac was recognised for nine consecutive years for its efficient policy issuance and service levels and for the tenure of its relationship with Chubb. Lonpac was nominated for the award by Chubb Multinational Account Coordinators and on the recommendations of Chubb's Affiliate Network Managers.

Corporate Governance Excellence (2005 – 2011)

LPI has been awarded the Malaysian Business – CIMA Enterprise Governance Merit Award for seven consecutive years from 2005. The award recognises companies for their organisational excellence in delivering performance while conforming to set standards and practices.

Malaysian Corporate Governance Index (2009, 2010, 2011)

LPI received the Most Prompt AGM Award and Distinction Award from MSWG for three consecutive years in recognition of its efficiency in holding its AGM less than 60 days after its financial year-end and for its commendable and excellent corporate governance practices, respectively. In 2010, LPI also won the Top 3 (Overall) Award from MSWG.

Excellence in Annual Corporate Reporting (2006, 2009, 2011)

LPI received a Certificate of Merit in the National Annual Corporate Report Awards in 2006, 2009 and 2011, reflecting its efforts to produce timely, informative, factual and reader-friendly annual reports. The award stands as a testament to LPI's commitment to a high standard of corporate governance and disclosure through its annual corporate reporting.

Best Insurance Company, Malaysia (2011)

Lonpac won the Best Insurance Company, Malaysia award at the World Finance Insurance Awards 2011. The award recognises industry leaders, individuals, teams and organisations that have reached a benchmark of achievement and best practice in the financial and business world.

Enhanced Shareholder Value (2005 – 2010)

Sectoral Winner (2005, 2006, 2008)

Global professional services consultant KPMG awarded LPI its KPMG Shareholder Value Award under the Financial Services category for six years running beginning 2005. LPI has also been recognised

as the Sectoral Winner three times—in 2005, 2006 and 2008. The KPMG award recognises corporate excellence in enhancing levels of disclosure and setting exemplary best practices.

General Insurance Company of the Year (2010)

Lonpac was the first Malaysian company to be awarded the prestigious General Insurance Company of the Year award at the 14th Asia Insurance Industry Awards 2010. The award recognises Lonpac's commitment to its customers and its solid financial performance.

Best Insurer (2009, 2010)

Lonpac was recognised as the 3rd Best Insurer Overall by Region – Asia 2010 by Euromoney, beating competition from larger insurers in more mature markets including Japan, China, India and Korea.

This recognition built on Lonpac's success the previous year when it was declared the winner in all five categories for Malaysia in the Euromoney 2009 awards, and consequently received the Best Insurer in Malaysia award. The five categories were:

- Best Insurer for Innovation, Malaysia
- Best Insurer for Price, Malaysia
- Best Product Range, Malaysia
- Best Insurer for Claims Resolution, Malaysia
- Best Consultant for Insurance Risk Transfer, Malaysia

Best Return to Shareholders (2008, 2010)

LPI was one of the winners of the Malaysian Business – CIMA Enterprise Governance Awards under the Best Return to Shareholder category. LPI won this award twice in 2008 and 2010.

Management Accounting Excellence (2006, 2007)

LPI received a Certificate of Finalist and a Certificate of Merit in the National Award for Management Accounting in 2006 and 2007 respectively. These awards recognise LPI's commendable management accounting practices, which lead to value creation and excellent business performance.

CONTINUING OUR COMMITMENT TO SUSTAINABILITY

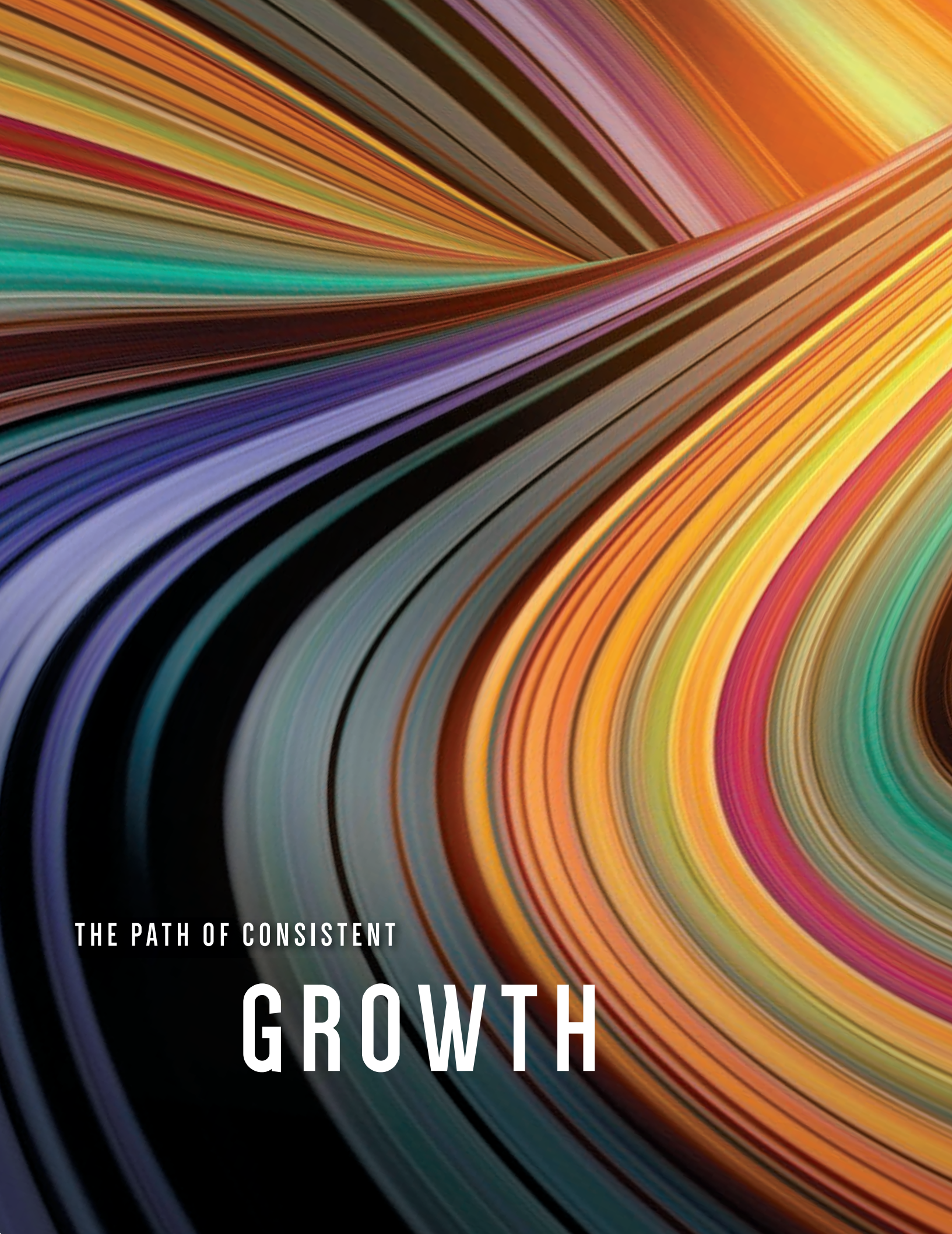
LPI published its first sustainability report in line with Bursa Securities' regulations last year together with its Annual Report 2016. Since the publication of that report, the Group has intensified its sustainability reporting practices and disclosures to provide greater transparency into its activities, as well as greater detail on its various sustainability policies. The results of these activities are reported in the 2017 edition of Lonpac's Sustainability Report, which can be found on pages 112 to 131 of this annual report.

The Group would like to reiterate its commitment to the principles of good corporate responsibility ("CR") and corporate sustainability to ensure that its business activities are in line with the goals of sustaining the Economy, Environment and Society ("EES"). In line with this commitment, the Group continues to support the less fortunate members of society, raise environmental awareness while mitigating its own environmental impact and ensuring that its business activities do not jeopardise the health of the economy.

Underpinning its sustainability commitment is its strong culture of good governance, which extends from the highest levels of the Board and Management to all employees on the ground. The Group therefore aims to be a creator of positive outcomes for society at large.

LPI GROUP'S COMMITMENT

The Group is committed to providing clients with competitive and innovative products and services to meet their insurance needs. It is also committed to investing in human capital development to enhance core competencies and business productivity. The Group endeavours to continue delivering healthy returns and long-term value to shareholders while meeting our obligations to help enhance communities and drive the progress of the nation.



THE PATH OF CONSISTENT

GROWTH

GROWTH IS MORE THAN STRUCTURED
FINANCIAL ACHIEVEMENTS. IT IS ABOUT
GROWING OUR PEOPLE, OUR CORPORATE
MATURITY AND OUR CONSISTENT FOCUS TO
BE PREMIER AMONGST PEERS.



1962

- On 24 May 1962, London and Pacific Insurance Company Limited ("LPICL") was incorporated as a private limited company.

1963

- On 9 April 1963, LPICL was registered as an approved insurer under the Malaysian Insurance Act, 1963.

1965

- LPICL paid its 1st dividend of 25% tax exempt per ordinary share of RM1.00 each.

1966

- LPICL changed its name to London and Pacific Insurance Company Sdn Bhd ("LPICSB") with effect from 15 April 1966.

1980

- The share capital of LPICB increased to RM11,000,000 ordinary shares of RM1.00 each through allotment of 7½% Convertible Preference Shares of RM0.50 each.

1992

- The share capital increased to RM19,800,000 ordinary shares of RM1.00 each through 4:5 bonus issue.

1993

- On 8 January 1993, LPICB was listed on the Second Board of Bursa Securities, then known as the Kuala Lumpur Stock Exchange.
- 1st RM10 million annual profit before tax with RM13.9 million profit before tax in the year.

- On 15 August 1996, LPICB was appointed by the Ministry of Human Resources to administer an insurance scheme – Foreign Workers Compensation Scheme, to provide coverage for industrial accident to foreign workers as provided under Section 26(2) of the Workmen's Compensation Act 1952.

- The share capital increased to RM53,460,000 ordinary shares of RM1.00 each through 2:5 bonus issue and 2:5 rights issue at RM7.00.

1997

- The listing of LPICB shares was transferred to the Main Market (then known as Main Board) of Bursa Securities on 17 January 1997.

CORPORATE MILESTONES SINCE 1962

1972

- The share capital increased to RM6,000,000 ordinary shares of RM1.00 each from an initial paid-up capital of RM1,000,000 in 1963, through 1:2 bonus issue and share allotment.
- LPICSB was converted into a public company and changed its name to London and Pacific Insurance Company Berhad ("LPICB") on 30 December 1972.

1973

- The share capital increased to RM8,000,000 ordinary shares of RM1.00 each through 1:3 rights issue at RM1.00.

1994

- Lonpac, a wholly-owned subsidiary of LPICB, was incorporated on 12 July 1994.
- The share capital increased to RM29,700,000 ordinary shares of RM1.00 each through 1:2 bonus issue.

1996

- On 15 April 1996, LPICB moved its Head Office to Bangunan Public Bank, No. 6, Jalan Sultan Sulaiman, 50000 Kuala Lumpur.

- On 15 May 1997, LPICB signed a reinsurance agreement with a panel of reinsurers on the Foreign Workers Compensation Scheme, witnessed by Dato' Lim Ah Lek, Minister of Human Resources.

- The new Corporate Logo was launched on 22 May 1997 in conjunction with LPICB's 35th Anniversary.

1999

- The share capital increased to RM106,920,000 ordinary shares of RM1.00 each through 1:1 bonus issue.



- Exercised a rationalisation scheme on 1 May 1999 to transfer the entire insurance business from LPICB to Lonpac.
- LPICB changed its name to LPI Capital Bhd on 3 May 1999.

2000

- The share capital increased to RM107,355,000 ordinary shares of RM1.00 each through Employees Share Option Scheme ("ESOS") exercise.

2001

- The share capital increased to RM107,398,000 ordinary shares of RM1.00 each through ESOS exercise.

2002

- On 7 February 2002, Lonpac celebrated a new business partnership with NIPPONKOA Insurance Co. Ltd ("NIPPONKOA"), witnessed by Dato' Chan Kong Choy, Deputy Minister of Finance.
- The share capital increased to RM118,137,000 ordinary shares of RM1.00 each through subscription of new ordinary shares by NIPPONKOA.

2003

- The share capital increased to RM120,159,000 ordinary shares of RM1.00 each through ESOS exercise.

2004

- Official opening of Customer Service Centre on 29 July 2004.
- The share capital increased to RM128,901,000 ordinary shares of RM1.00 each through ESOS exercise.

2005

- The share capital increased to RM138,723,000 ordinary shares of RM1.00 each through ESOS exercise.
- 1st RM100 million annual profit before tax with RM103.6 million profit before tax in the year.



2004

2007

- LPI held 45% interest in a Cambodian insurance company named Campu Lonpac Insurance Plc. This is for the purpose of carrying out general insurance business in Cambodia, pursuant to approvals received from Bank Negara Malaysia and relevant Cambodian regulatory authorities.

2009

- Total assets surpassed RM1 billion for the first time.

2010

- The share capital increased to RM221,323,980 ordinary shares of RM1.00 each through 1:2 bonus issue and 1:10 rights issue at RM7.00.
- Lonpac became the first Malaysian company to win the General Insurance Company of the Year Award at the 14th Asia Insurance Industry Awards 2010.

- Total assets surpassed RM2 billion for the first time.

2012

- 1st RM1 billion annual gross premium income with RM1.03 billion gross premium income in the year.

2013

- Total assets surpassed RM3 billion for the first time.

2014

- 1st RM300 million annual profit before tax with RM341.9 million profit before tax in the year.

2015

- The share capital increased to RM331,985,808 ordinary shares of RM1.00 each through 1:2 bonus issue.

2016

- 1st RM500 million annual profit before tax with RM518.9 million profit before tax in the year.

2017

- Underwriting profit exceeded RM300 million to record RM305.8 million underwriting profit in the year.



2010

伦平首季净利增8%

吉隆坡10日讯：伦平资本（LPI，0621，主板金融股）2017财年首季（截至3月31日止）取得开门红，净利增长7.9%，至7956万令吉，黄金股也增长8.4%，至3亿4784万令吉。

今年首季的业绩已超越预期，从去年同期4.3%的净利增长，至7.9%。而去年首季净利增长0.9%，至7956万令吉。去年首季净利增长0.9%，至7956万令吉。去年首季净利增长0.9%，至7956万令吉。



图：伦平资本主席 郑鸿标

净保费收入大增

伦平资本主席郑鸿标表示，今年首季净保费收入大增，主要是受惠于集团旗下的保险业务，包括寿险、人保、财险等。

郑鸿标指出，集团旗下的保险业务，包括寿险、人保、财险等，今年首季表现强劲，净保费收入大增。

今年展望谨慎乐观

郑鸿标表示，集团对今年首季的业绩感到满意，但对未来一年的展望则较为谨慎乐观。

郑鸿标指出，集团对今年首季的业绩感到满意，但对未来一年的展望则较为谨慎乐观。

伦平次季净赚6806万

郑鸿标：保险业开放加剧竞争

（吉隆坡10日讯）伦平（LPI，0621，主板金融股）截至6月30日止次季，宣布净赚27亿，较前次季净赚22亿，增幅达23%。



图：伦平资本主席 郑鸿标

郑鸿标表示，集团对今年首季的业绩感到满意，但对未来一年的展望则较为谨慎乐观。

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普险营收增3.9%

郑鸿标表示，集团对今年首季的业绩感到满意，但对未来一年的展望则较为谨慎乐观。

LPI Capital starts 2017 on positive note; 1Q net profit up 7.9%

BY BILLY TON

KUALA LUMPUR: LPI Capital Bhd started the year on a positive note, reporting a 7.9% rise in first-quarter net profit largely contributed by profit from the general insurance segment.

Net profit for the three months ended March 31, 2017 (1QFY17) grew to RM70.56 million or 21.25 sen a share from RM65.39 million or 19.7 sen a share a year ago.

Quarterly revenue also increased 8.4% to RM347.64 million from RM320.56 million in 1QFY16.

In a filing with Bursa Malaysia yesterday, LPI said its general insurance segment rose 12.3% to RM74.1 million in 1QFY17 from RM66 million a year ago.

However, its investment holding segment recorded a lower profit of RM14.7 million in 1QFY17 compared with RM16.2 million in 1QFY16 due to lower dividend income received.

In a separate statement, LPI

founder and chairman Tan Sri Dr Teh Hong Piow said its wholly-owned insurance subsidiary Lompac Insurance Bhd remained resilient despite multiple external shocks and adjustments to various challenges faced by the local economy in 2016. These included volatile global commodity prices, weak global demand, depreciation of the ringgit, lingering impact of goods and services tax implementation and domestic price adjustments.

Lompac's claims incurred ratio reduced to 39.8% from 43.1%, while its management expense ratio shaved off 0.9% point to 24.7% in 1QFY17. Consequently, its underwriting profit rose by 16.8% to RM58.5 million for the first three months of 2017 compared with RM50 million in the first quarter of 2016, he noted.

On the outlook, Teh said Lompac is cautiously optimistic that it will be able to sustain its profit and growth trends for the remainder of 2017.



图：伦平资本主席 郑鸿标

LPI Capital Bhd's earnings for its third quarter ended Sept 30, 2017 rose 18.5% to RM92.37 million from a year ago while revenue jumped 11.8% to RM406.78 million on strong performance from the groups Lompac Insurance Bhd.

Lompac's gross premium income for the third quarter grew 34.6% to RM241.6 million from RM179.6 million a year ago while its pre-tax profit posted a 20.3% jump to RM102.4 million from RM85.1 million.

FINANCIAL PERFORMANCE

LPI Capital's net profit increases 18.5pc in Q3

KUALA LUMPUR: LPI Capital Bhd's net profit increased 18.5% to RM92.37 million for the third quarter (Q3) ended September 30, from RM77.97 million recorded in the same quarter last year.

The company said the growth was largely contributed by a 34.6% rise in gross premium income, which increased by 34.6% to RM241.6 million from RM179.6 million in the third quarter of last year.

Underwriting profit for the quarter rose 16.8% to RM58.5 million from RM50 million in the third quarter of last year.

Revenue for the quarter rose 11.8% to RM406.78 million from RM364.78 million in the third quarter of last year.

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伦平第三季赚 9217 万

（吉隆坡9日讯）伦平（LPI，0621，主板金融股）第三季业绩表现强劲，净赚9.217亿令吉，较前年第三季净赚8.52亿令吉，增幅达8.2%。

伦平主席郑鸿标表示，集团对今年首季的业绩感到满意，但对未来一年的展望则较为谨慎乐观。

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倫平資本

（吉隆坡9日讯）伦平（LPI，0621，主板金融股）第三季业绩表现强劲，净赚9.217亿令吉，较前年第三季净赚8.52亿令吉，增幅达8.2%。

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保險業務逆市上揚

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第三季多赚19%

（吉隆坡9日讯）伦平（LPI，0621，主板金融股）第三季业绩表现强劲，净赚9.217亿令吉，较前年第三季净赚8.52亿令吉，增幅达8.2%。

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TEN-YEAR GROUP FINANCIAL SUMMARY

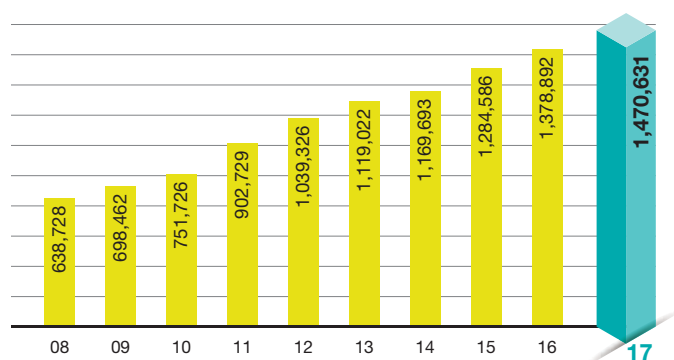
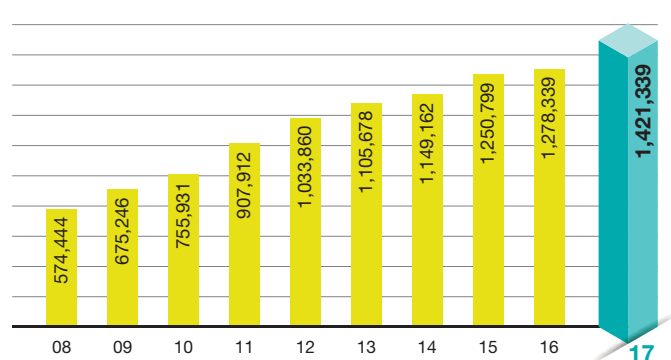
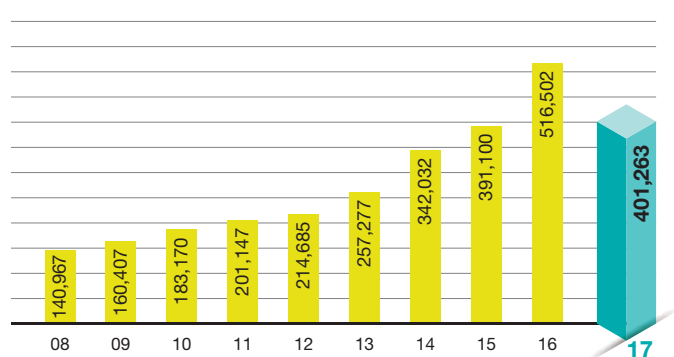
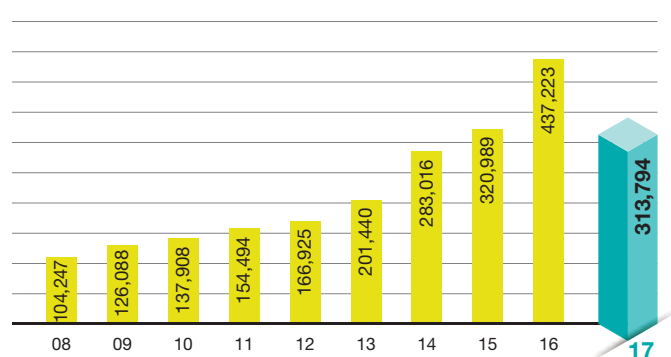
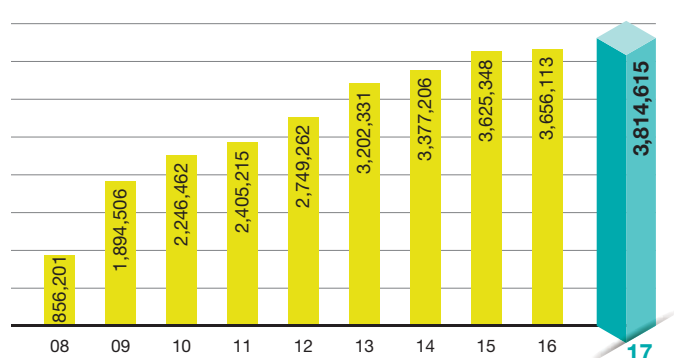
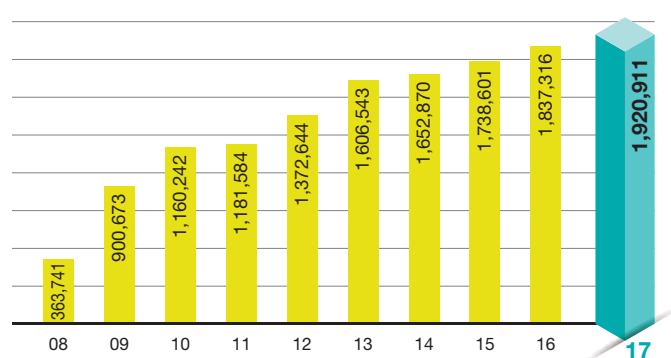
YEAR ENDED 31 DECEMBER

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
OPERATING RESULTS (RM'000)										
Operating Revenue	1,470,631	1,378,892	1,284,586	1,169,693	1,119,022	1,039,326	902,729	751,726	698,462	638,728
Gross Written Premiums	1,421,339	1,278,339	1,250,799	1,149,162	1,105,678	1,033,860	907,912	755,931	675,246	574,444
Operating Profit	401,263	516,502	391,100	342,032	257,277	214,685	201,147	183,170	160,407	140,967
Profit Before Tax	403,749	518,925 ^{N1}	393,066	341,949	256,801	214,036	200,053	181,307	161,335	141,564
Profit Attributable To Owners Of The Company	313,794	437,223	320,989	283,016	201,440	166,925	154,494	137,908	126,088	104,247
KEY STATEMENTS OF FINANCIAL POSITION DATA (RM'000)										
Total Assets	3,814,615	3,656,113	3,625,348	3,377,206	3,202,331	2,749,262	2,405,215	2,246,462	1,894,506	856,201 ^{N2}
Total Liabilities	1,893,704	1,818,797	1,886,747	1,724,336	1,595,788	1,376,618	1,223,631	1,086,220	993,833	492,460
Share Capital	338,244	331,986	331,986	221,324	221,324	221,324	221,324	221,324	138,723	138,723
Total Equity	1,920,911	1,837,316	1,738,601	1,652,870	1,606,543	1,372,644	1,181,584	1,160,242	900,673	363,741 ^{N2}
PRODUCTIVITY RATIO										
No. of Employees	790	772	738	705	687	667	611	562	543	498
Gross Written Premiums Income per Employee (RM'000)	1,799	1,656	1,695	1,630	1,609	1,550	1,486	1,345	1,244	1,154
No. of Policies Issued per Employee	2,399	2,315	2,616	2,331	2,352	2,296	2,304	2,134	1,912	1,836
No. of Claims Settled per Claims Staff	1,395	1,340	1,197	1,176	1,170	1,127	1,082	1,054	1,036	1,008

^{N1} – The Group profit before tax for 2016 would be RM368.5 million if it was adjusted to exclude the one-off realised gains of RM150.4 million arising from the disposal of long term equity investment.

^{N2} – The Total Assets and Equity for the year of 2008 was without the effect of FRS 139, *Financial Instruments: Recognition and Measurement*.

The figures for 2011 to 2017 presented above are based on MFRS whereas 2010 and prior are based on FRS.

OPERATING REVENUE (RM'000)**GROSS WRITTEN PREMIUMS** (RM'000)**OPERATING PROFIT** (RM'000)**PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY** (RM'000)**TOTAL ASSETS** (RM'000)**TOTAL EQUITY** (RM'000)

Note: The Total Assets and Equity for the year of 2008 was without the effect of FRS 139, *Financial Instruments: Recognition and Measurement*.

The figures for 2011 to 2017 presented above are based on MFRS whereas 2010 and prior are based on FRS.

TEN-YEAR GROUP FINANCIAL SUMMARY

YEAR ENDED 31 DECEMBER

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
SHARE INFORMATION AND VALUATION										
Share Information										
Per share (sen)										
Basic Earnings	94.5	131.7 ^{N3}	96.7	85.5	91.4 ^{N4}	75.8 ^{N4}	70.1 ^{N4}	63.8 ^{N4}	58.8 ^{N4}	75.7 ^{N4&N5}
Net Dividend	72.00	80.00	70.00	75.00	70.00	65.00	75.00	55.00	67.50	63.45
Net Tangible Assets	578.61	553.43	523.70	746.81	729.22	623.00	536.33	526.74	654.23	264.21
Share Price as at 31 December (RM)	18.16	16.38	16.08	18.06	17.44	14.54	13.52	13.18	13.70	9.45
Market Capitalisation (RM'000)	6,028,866	5,437,931	5,338,335	3,997,111	3,859,891	3,218,051	2,992,300	2,917,050	1,900,505	1,310,932
Share Valuation										
Net Dividend Yield (%)	4.5	5.6	4.1	5.0	5.1	4.9	7.1	7.7	6.2	5.8
Dividend Payout Ratio (%)	76.2	60.7	72.4	58.6	76.6	85.8	107.0	86.2	114.8	83.8
Price to Earnings Multiple (times)	19.2	12.4	16.6	21.1	19.1	19.2	19.3	20.7	23.3	12.5
Price to Book Multiple (times)	3.1	3.0	3.1	2.4	2.4	2.3	2.5	2.5	2.1	3.6
FINANCIAL RATIOS (%)										
Profitability Ratios										
Return on Equity ("ROE")	16.3	23.8	18.5	17.1	12.5	12.2	13.1	11.9	14.0	14.0 ^{N5}
Return on Assets	8.2	12.0	8.9	8.4	6.3	6.1	6.4	6.1	6.7	12.2
Operating Margin	27.3	37.5	30.4	29.2	23.0	20.7	22.3	24.4	23.0	22.1
Net Claims Incurred	38.5	38.3	41.0	44.0	45.5	47.5	48.9	47.7	47.1	51.2

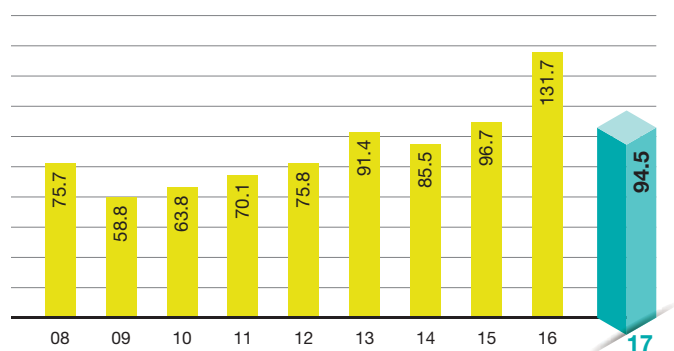
^{N3} – The Group's earnings per share for 2016 would be 86.4 sen if it was adjusted to exclude the one-off realised gains of RM150.4 million arising from the disposal of long term equity investment.

^{N4} – The Basic Earnings Per Ordinary Share from 2008 - 2013 were without the effect of bonus issues during the year 2015.

^{N5} – The Basic Earnings Per Ordinary Share and ROE for the year of 2008 was without the effect of bonus and rights issues during the year 2010.

The figures for 2011 to 2017 presented above are based on MFRS whereas 2010 and prior are based on FRS.

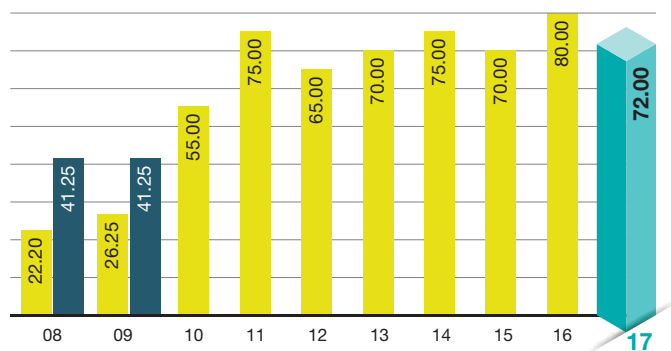
BASIC EARNINGS PER SHARE (SEN)



Note: The Basic Earnings Per Ordinary Share and ROE for the year of 2008 was without the effect of bonus and rights issues during the year 2010.

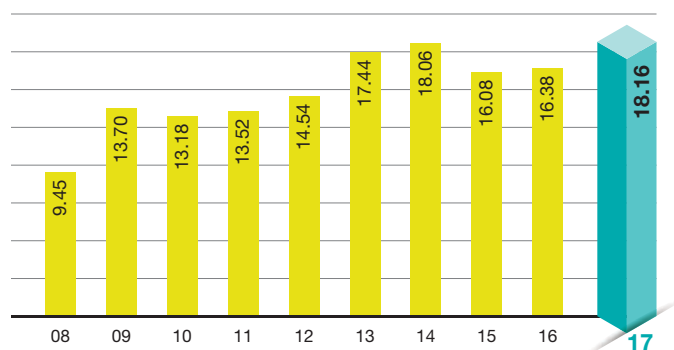
The figures for 2011 to 2017 presented above are based on MFRS whereas 2010 and prior are based on FRS.

NET DIVIDEND PER SHARE (SEN)

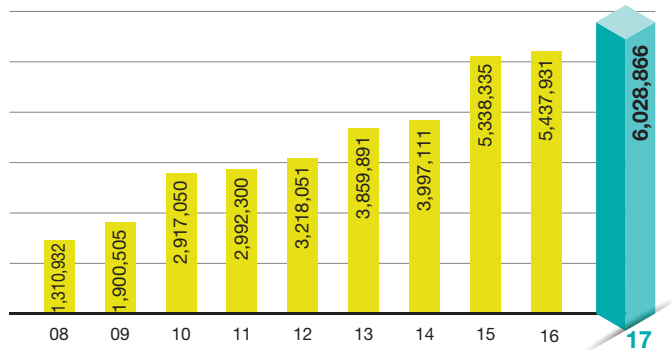


■ Interim ■ Final

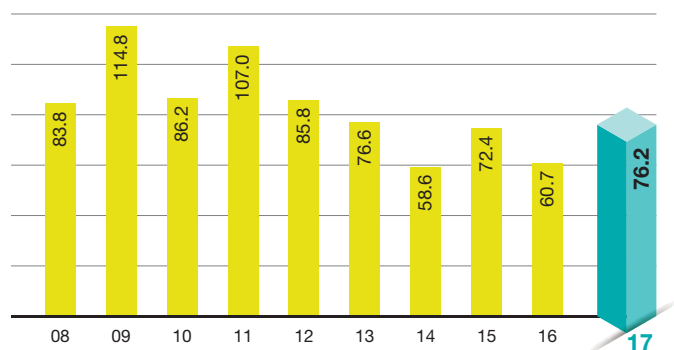
SHARE PRICE (RM)



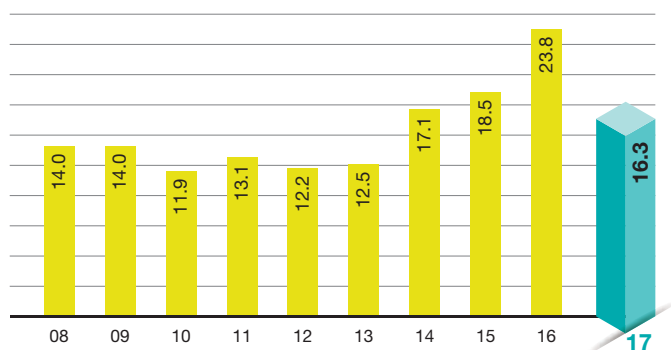
MARKET CAPITALISATION (RM'000)



DIVIDEND PAYOUT RATIO (%)



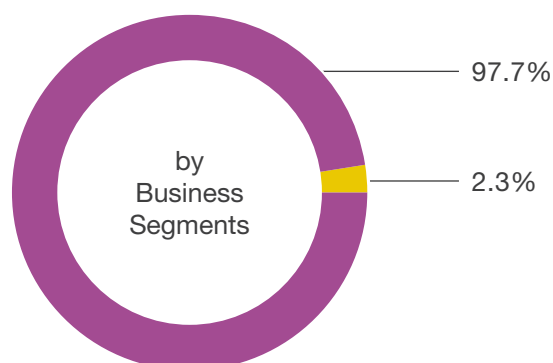
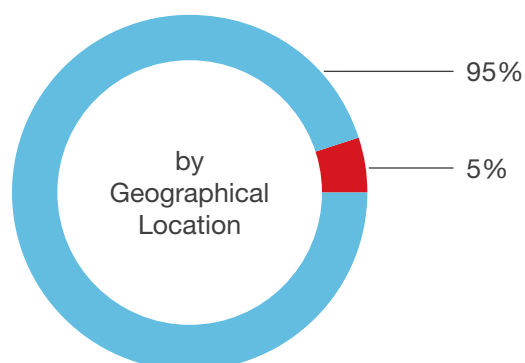
RETURN ON EQUITY (%)



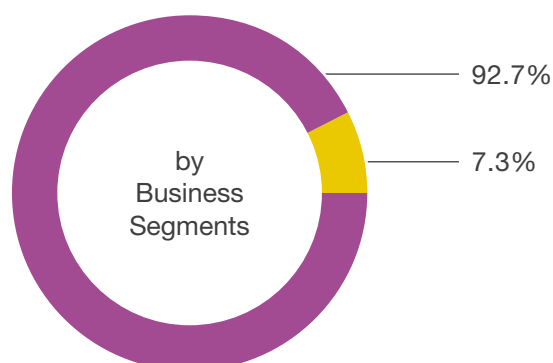
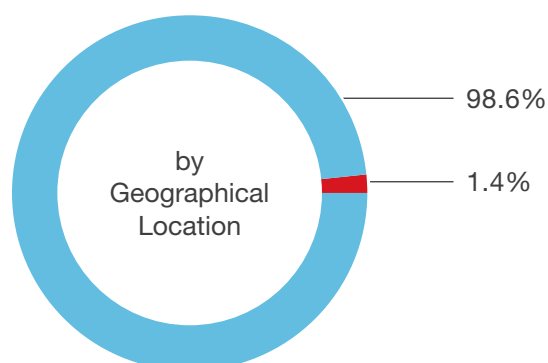
SEGMENTAL ANALYSIS

FOR THE YEAR ENDED 31 DECEMBER 2017

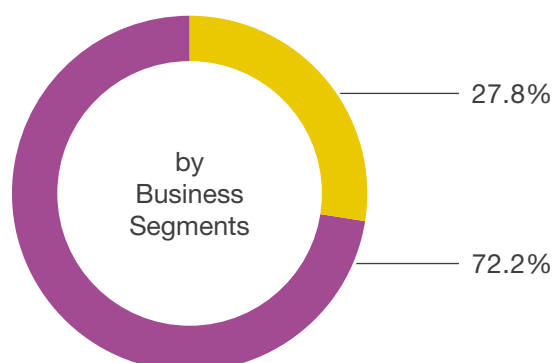
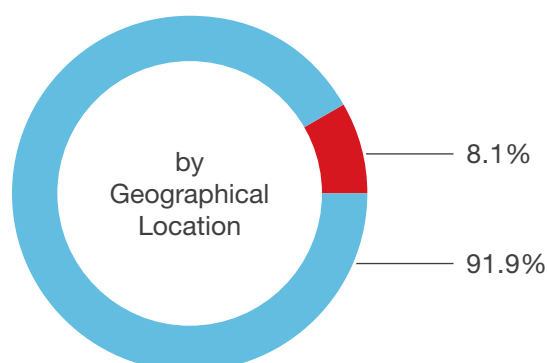
OPERATING REVENUE



PROFIT BEFORE TAX

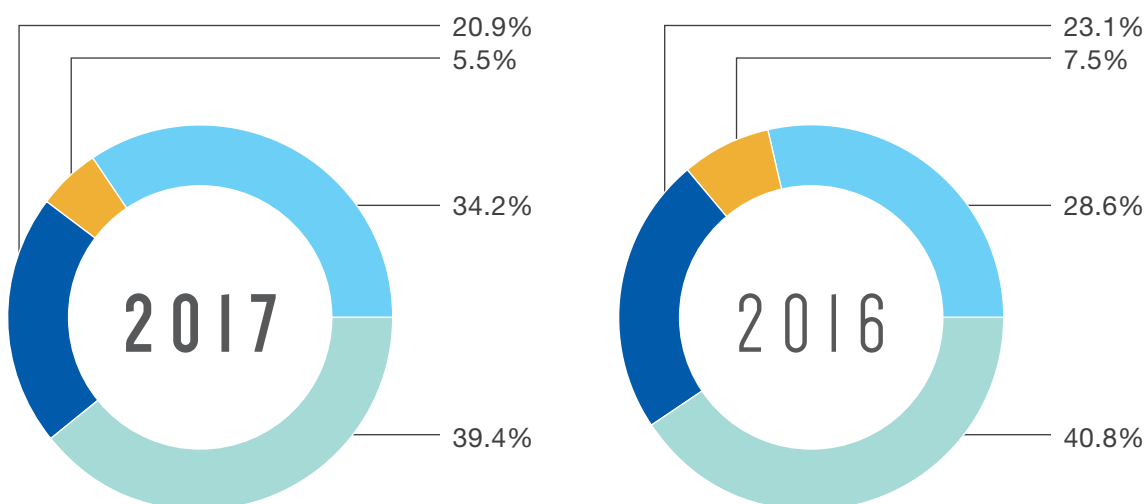


TOTAL ASSETS

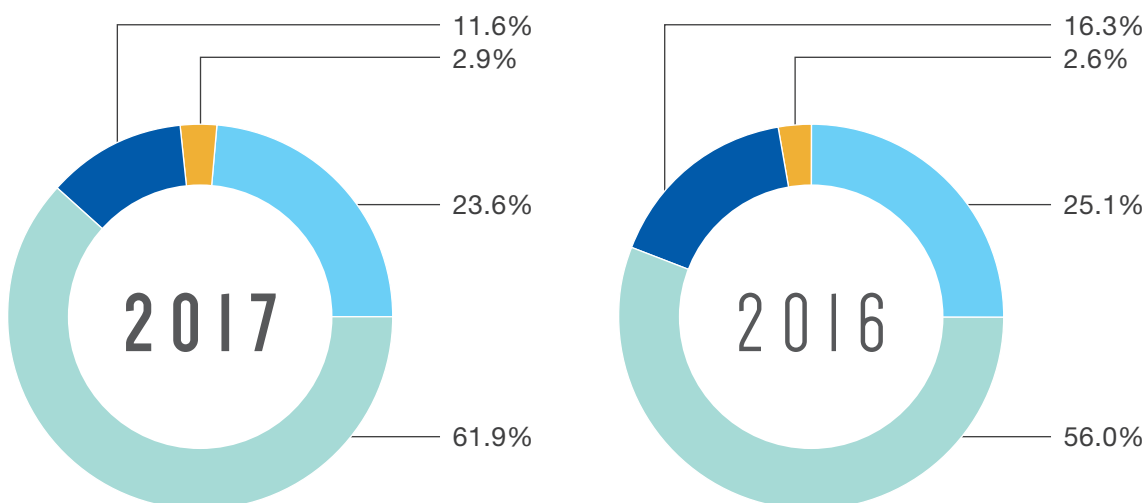


● Within Malaysia
 ● Outside Malaysia
 ● General Insurance
 ● Investment Holding

GROSS WRITTEN PREMIUMS BY CLASS



UNDERWRITING SURPLUS BEFORE MANAGEMENT EXPENSES BY CLASS



● Fire
 ● Motor
 ● Marine, Aviation & Transit
 ● Miscellaneous

GROUP QUARTERLY PERFORMANCE

2017

RM'000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2017
FINANCIAL PERFORMANCE					
Operating revenue	347,640	352,710	406,788	363,493	1,470,631
Operating profit	87,776	88,701	114,541	110,245	401,263
Profit before tax	88,794	89,216	115,034	110,705	403,749
Profit attributable to owners of the Company	70,563	68,064	92,170	82,997	313,794
Earnings per share (sen)*	21.25	20.51	27.76	25.00	94.52
Net dividends per share (sen)	–	27.00	–	45.00	72.00

2016

RM'000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2016
FINANCIAL PERFORMANCE					
Operating revenue	320,561	339,250	363,529	355,552	1,378,892
Operating profit	81,101	232,118	97,104	106,179	516,502
Profit before tax	82,181	232,474	97,404	106,866	518,925
Profit attributable to owners of the Company	65,386	212,619	77,768	81,450	437,223
Earnings per share (sen)*	19.70	64.04	23.43	24.53	131.70
Net dividends per share (sen)	–	25.00	–	55.00	80.00

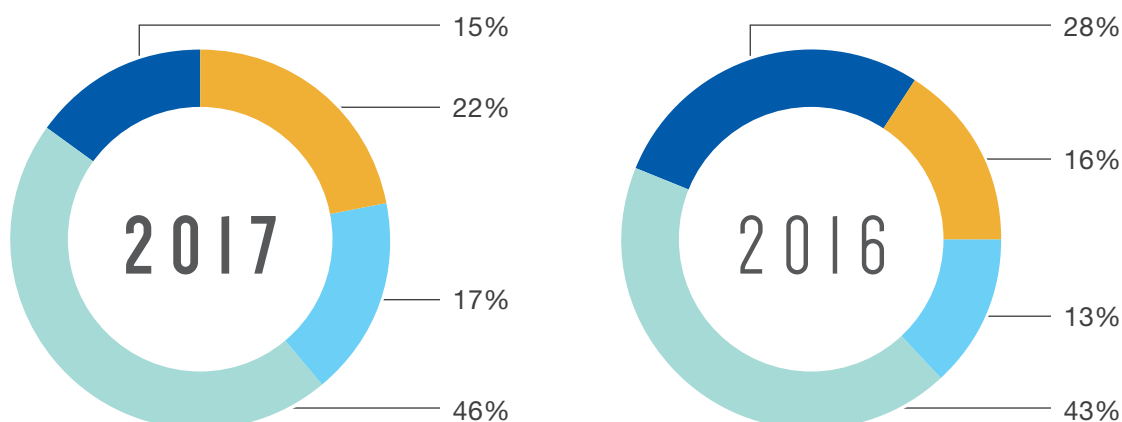
* Quarterly earnings per ordinary share is based on the weighted average number of ordinary shares in issue during the quarter whereas the year-to-date earnings per ordinary share is based on the weighted average number of ordinary shares in issue during the year.

STATEMENT OF VALUE ADDED

Value added is a measure of wealth created by the Group through various business activities. The Statement of Value Added shows the total wealth created and how it was distributed to stakeholders, including the Government, as well as reinvestment for the replacement of assets and further expansion of the business of the Group.

Value Added	2017 RM'000	2016 RM'000
Net earned premium	850,154	767,297
Other income	219,435	353,807
Net claims incurred	(327,711)	(294,152)
Other expenses excluding staff costs and depreciation	(225,643)	(205,406)
Finance costs	(3)	—
Share of profit after tax of equity accounted associate	2,489	2,423
Value added available for distribution	518,721	623,969

Distribution of Value Added	2017 RM'000	2016 RM'000
To employees: Staff costs	111,787	101,484
To the Government: Tax expense	89,955	81,702
To providers of capital: Dividend paid to shareholders	239,030	265,588
To reinvest in the Group: Depreciation	3,185	3,560
Retained earnings	74,764	171,635
Total distributed	518,721	623,969



● Employees
 ● Government
 ● Providers of capital
 ● Reinvestment in the Group

AWARDS & RECOGNITION

The awards and recognition conferred to LPI Capital Bhd ("LPI") and its wholly-owned subsidiary Lonpac Insurance Bhd ("Lonpac") are affirmations of the Group's commitment towards excellence, guided by its Vision "To be the Preferred Premier Insurance Solutions Provider".

The BrandLaureate Most Sustainable Brand Awards 2016-2017 for brand excellence in General Insurance

by Asia Pacific Brands Foundation
22 May 2017

Lonpac was conferred The BrandLaureate Most Sustainable Brand Awards 2016-2017 for brand excellence in General Insurance by the Asia Pacific Brands Foundation. Recipients of the BrandLaureate Most Sustainable Brand Awards are markets leaders with international footprints. Lonpac has won The BrandLaureate awards for the 7th consecutive year since 2011.



The Edge Billion Ringgit Club Corporate Awards 2017

by The Edge
21 August 2017

LPI was conferred with Gold Award on Highest Growth in Profit After Tax Over Three Years and Silver Award on Highest Returns to Shareholders Over Three Years under the Finance Sector category below RM10 billion market capitalisation of The Edge Billion Ringgit Club Corporate Awards 2017.

The Edge Billion Ringgit Club Corporate Awards were presented in recognising the performance of Malaysia's biggest listed companies in terms of highest profit growth, return on equity, and total shareholder returns (capital gains plus yield) over three years.

LPI has been admitted as a member of The Edge Billion Ringgit Club since it was first launched in 2010.

Minority Shareholder Watchdog Group ("MSWG") – ASEAN Corporate Governance Recognition 2017

by The Minority Shareholder Watchdog Group
6 December 2017

LPI was conferred with the following awards in the MSWG – ASEAN Corporate Governance Recognition 2017:

- Excellence Award for Overall Corporate Governance & Performance (3rd in Overall Category)
- Industry Excellence Award – Financial
- Excellence Award for Long-Term Value Creation

The MSWG – ASEAN Corporate Governance Awards 2017 recognised public listed companies with the best corporate governance practices and disclosures.

Majikan Terbaik Wilayah Persekutuan Kuala Lumpur 2017

by Kumpulan Wang Simpanan Pekerja
29 November 2017

Lonpac was conferred Majikan Terbaik Wilayah Persekutuan Kuala Lumpur 2017 by Kumpulan Wang Simpanan Pekerja ("KWSP") in recognising its excellent monthly contribution, constant usage of e-Payment, clean record on Unpostable Contribution, complaint-free from employees and full compliance on other KWSP procedures.



RECORD OF PAST AWARDS

WORLD FINANCE INSURANCE AWARDS 2011

by World Finance

- Best Insurance Company, Malaysia

14TH ASIA INSURANCE INDUSTRY AWARDS 2010

by Asia Insurance Review

- General Insurance Company of the Year

EUROMONEY INSURANCE SURVEY

by Euromoney

- 2010 – 3rd Best Insurer Overall by Region – Asia
- 2009 – Best Insurer in Malaysia
 - Best Insurer for Innovation, Malaysia
 - Best Insurer for Price, Malaysia
 - Best Product Range, Malaysia
 - Best Insurer for Claims Resolution, Malaysia
 - Best Consultant for Insurance Risk Transfer, Malaysia

MALAYSIA – ASEAN CORPORATE GOVERNANCE TRANSPARENCY INDEX, FINDINGS AND RECOGNITION

by The Minority Shareholder Watchdog Group

- 2016 – Excellence Award for Top Corporate Governance and Performance (Overall category)
 - Industry Excellence – Financial
 - Merit Award for CG Disclosures
- 2015 – Merit Award for CG Disclosure
 - Merit Award for Most Prompt AGM
- 2014 – Top 10 in Top Corporate Governance Recognition Category
- 2013 – Most Prompt AGM Award

MALAYSIAN CORPORATE GOVERNANCE INDEX

by The Minority Shareholder Watchdog Group

- 2011 – Most Prompt AGM Award
 - Distinction Award
- 2010 – Top Three (Overall) Award
 - Most Prompt AGM Award
 - Distinction Award
- 2009 – Most Timely Held AGM Award
 - Distinction Award

MALAYSIAN BUSINESS – CIMA ENTERPRISE GOVERNANCE AWARDS

by Malaysian Business and CIMA

- 2011 – Merit Award, Overall Winner
- 2010 – Merit Award, Overall Winner
 - 1st Runner up Winner, Best Return to Shareholders
 - Merit Award, Corporate Social Responsibility
- 2009 – Merit Award
- 2008 – Best Return to Shareholders
 - Merit Award

MALAYSIAN BUSINESS CORPORATE GOVERNANCE AWARD – MERIT AWARD (2004 – 2006)

by Malaysian Business

KPMG SHAREHOLDER VALUE AWARD

by KPMG

- 2010 – Winner, Financial Services
- 2008 – Sectoral Winner, Financial Services & Winner, Financial Services
- 2007 – Winner, Financial Services
- 2006 – Sectoral Winner, Financial Services
- 2005 – Sectoral Winner, Financial Services
- 2004 – Winner, Financial Services

THE BRANDLAUREATE BESTBRANDS PRESIDENT'S AWARDS – GENERAL INSURANCE (2016)

by Asia Pacific Brands Foundation

THE BRANDLAUREATE BESTBRANDS SIGNATURE AWARDS IN FINANCIAL SERVICES

– GENERAL INSURANCE (2014 – 2015)

by Asia Pacific Brands Foundation

THE BRANDLAUREATE BESTBRANDS AWARDS IN FINANCIAL SERVICES

– GENERAL INSURANCE (2011 – 2013)

by Asia Pacific Brands Foundation

THE EDGE BILLION RINGGIT CLUB (2010 – 2014)

by The Edge

- 2011 – 3rd Most Profitable Company
 - Highest Return on Equity Over 3 Years
- 3rd Best Performing Stock
 - Highest Return to Shareholders Over 3 Years (Finance Sector categories)
- 2010 – 2nd Highest Return on Equity Over 3 Years
- 2nd Highest Return to Shareholders Over 3 Years (Finance Sector categories)

HADIAH BAHASA INSTITUSI KEWANGAN 2010 (GENERAL INSURANCE CATEGORY)

by Dewan Bahasa dan Pustaka

NATIONAL ANNUAL CORPORATE REPORT AWARDS (“NACRA”) – CERTIFICATE OF MERIT (2006, 2009, 2011)

by Bursa Malaysia Berhad, Malaysian Institute of Accountants and The Malaysian Institute of Certified Public Accountants

CHUBB MULTINATIONAL SOLUTIONS OUTSTANDING AFFILIATE WORLD – CLASS SERVICE AWARD (2007 – 2015)

by Chubb Multinational Solutions

RSA GLOBAL NETWORK RECOGNITION AWARD (2013, 2016)

by RSA Global Network

TOP TEN VALUED SUPPLIER (2006, 2007)

by IGB Corporation

NATIONAL AWARD FOR MANAGEMENT ACCOUNTING (“NAFMA”)

by Malaysian Institute of Accountants and The Chartered Institute of Management Accountants

2007 – Certificate of Merit

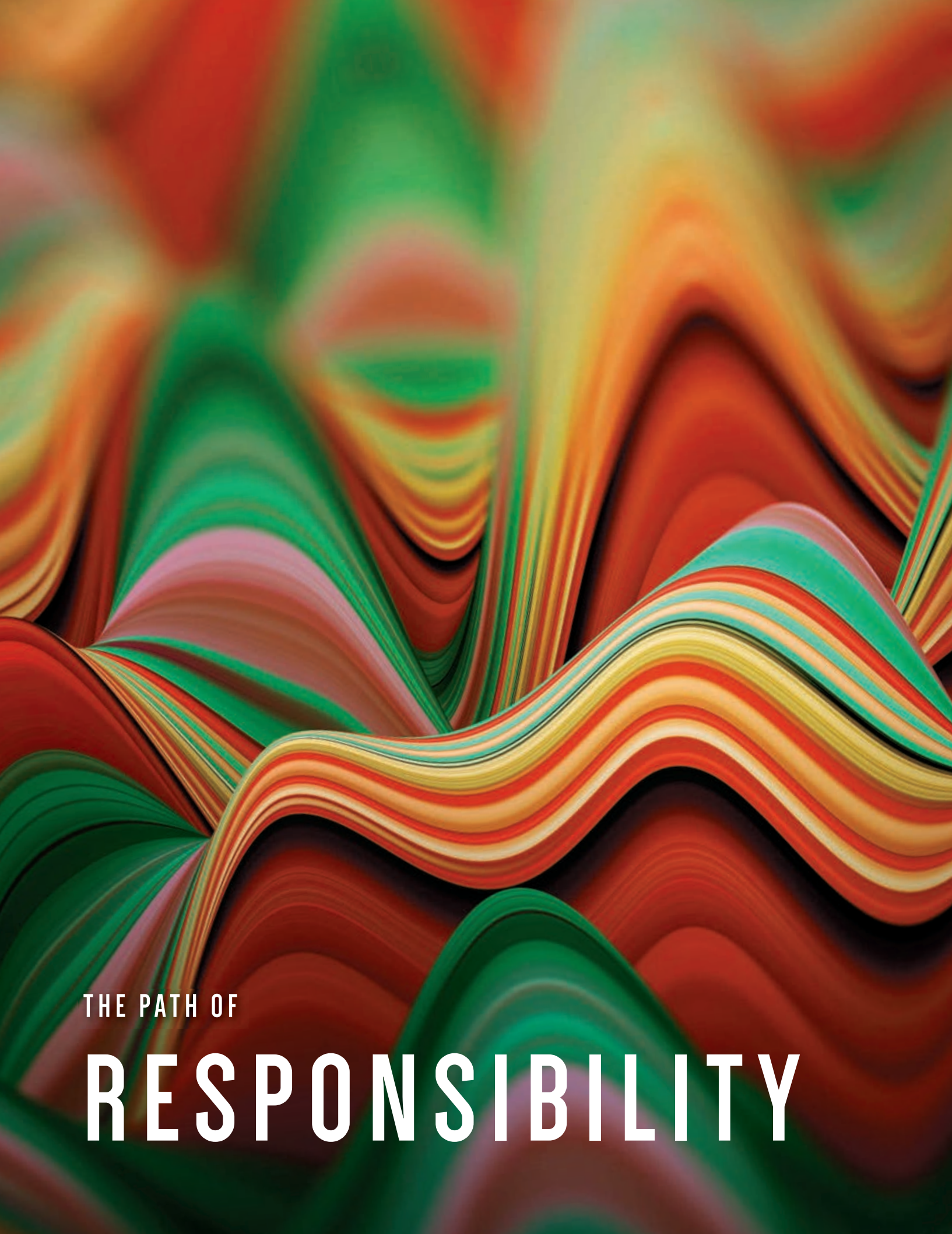
2006 – Certificate of Finalist

“BEST UNDER A BILLION” AWARD FOR ASIA-PACIFIC REGION

by Forbes Asia in 2005

MALAYSIA 1000

by Companies Commission of Malaysia, Ministry of Domestic Trade and Consumer Affairs and Basis Publications House in 2005



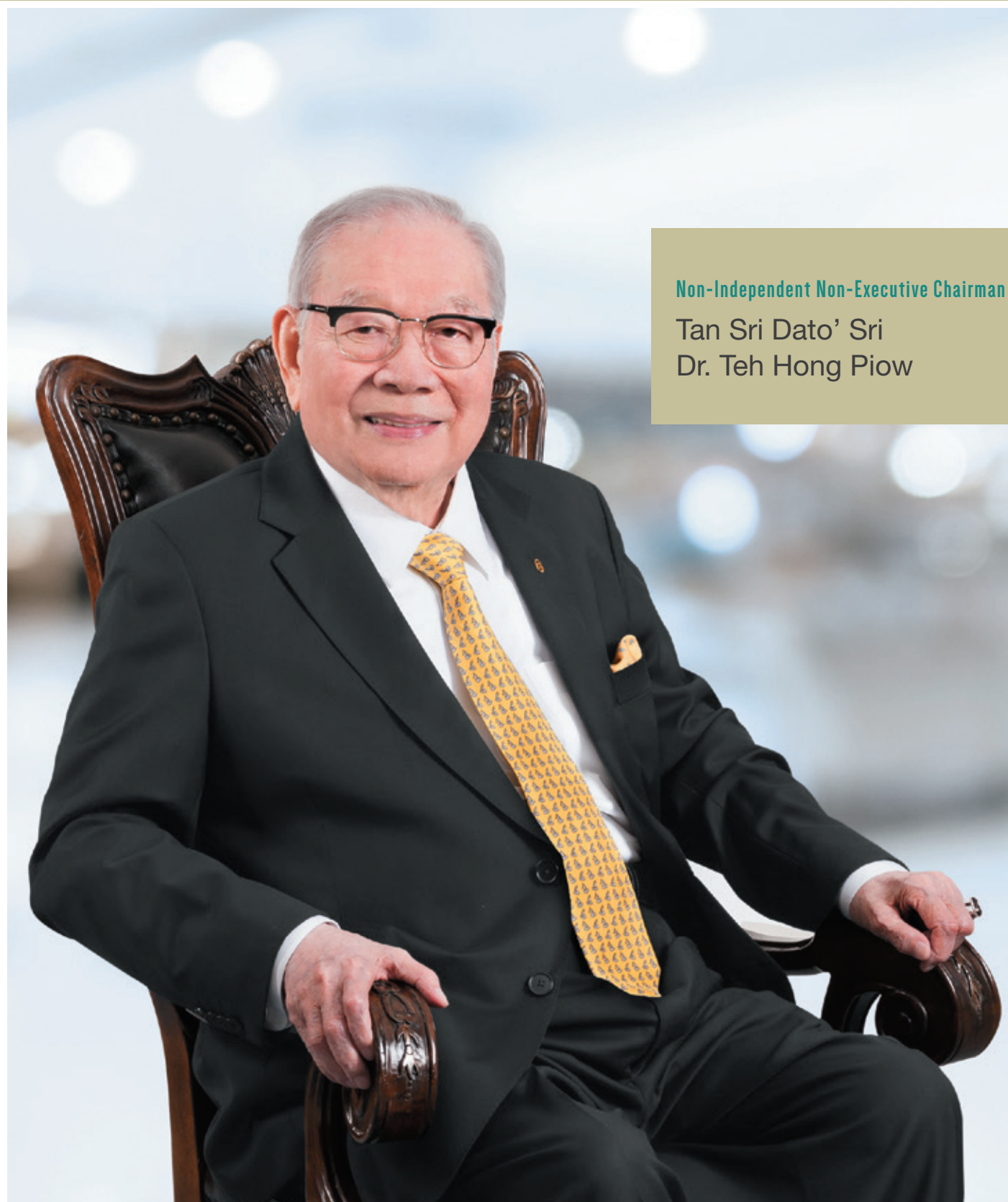
THE PATH OF

RESPONSIBILITY



FOR A BUSINESS PHILOSOPHY TO BE RELEVANT
AND REMAIN RELEVANT, WE TAKE ON THE
RESPONSIBILITY TO CREATE GENUINE AND
SHARED SUSTAINABLE VALUES FOR THE
BETTERMENT OF OUR CUSTOMERS,
SHAREHOLDERS AND STAKEHOLDERS.

BOARD OF DIRECTORS



Non-Independent Non-Executive Chairman

Tan Sri Dato' Sri
Dr. Teh Hong Piow



► Independent Non-Executive Co-Chairman
Mr. Tee Choon Yeow



► Chief Executive Officer/ Executive Director
Mr. Tan Kok Guan



► Independent Non-Executive Director
Mr. Lee Chin Guan



► Non-Independent Non-Executive Director
Mr. Quah Poh Keat



► Independent Non-Executive Director
Ms. Chan Kwai Hoe



► Company Secretary
Ms. Kong Tian Mee

BOARD OF DIRECTORS' PROFILE



Non-Independent Non-Executive Chairman Tan Sri Dato' Sri Dr. Teh Hong Piow

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 87, male, was appointed to the Board of the Company on 27 September 1971 and has served as Chairman of the Company since then. He is also a Non-Independent Non-Executive Director of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd, a public company. Presently, Tan Sri Dato' Sri Dr. Teh serves as Chairman of the Investment Committee of the Company.

Tan Sri Dato' Sri Dr. Teh is a banker by profession. He began his banking career in 1950 and has 68 years' experience in the banking and finance industry. He founded Public Bank Bhd in 1965 at the age of 35.

Tan Sri Dato' Sri Dr. Teh had won both domestic and international acclaim for his outstanding achievements as a banker and the Chief Executive Officer of a leading financial services group. Awards and accolades that he had received include:

- Asia's Commercial Banker of the Year 1991
- The ASEAN Businessman of the Year 1994
- Malaysia's Business Achiever of the Year 1997
- Malaysia's CEO of the Year 1998
- Best CEO in Malaysia 2004
- The Most PR Savvy CEO 2004
- The Asian Banker Leadership Achievement Award 2005 for Malaysia
- Award for Outstanding Contribution to the Development of Financial Services in Asia 2006
- Lifetime Achievement Award 2006
- Award for Lifetime Achievement in Corporate Excellence, Dedication and Industry 2006
- Asia's Banker of High Distinction Award 2006
- The BrandLaureate Brand Personality Award 2007
- ASEAN Most Astute Banker Award 2007
- Lifetime Entrepreneurship Achievement Award 2007
- The Pila Recognition Award 2007
- Asian Banker Par Excellence Award 2008
- Best CEO in Malaysia 2009
- Asia's Banking Grandmaster 2010
- Asian Corporate Director Recognition Award 2010 for Malaysia
- Value Creator: Malaysia's Outstanding CEO 2010
- The BrandLaureate - Tun Dr. Mahathir Mohamad Man of the Year Award 2010 – 2011
- Best CEO (Investor Relations) 2011 for Malaysia
- Asian Corporate Director Recognition Award 2011 for Malaysia
- The BrandLaureate Premier Brand Icon Leadership Award 2011
- Best CEO (Investor Relations) 2012 for Malaysia
- Asian Corporate Director Recognition Award 2012 for Malaysia
- Best CEO (Investor Relations) 2013 for Malaysia
- Asian Corporate Director Recognition Award 2013 for Malaysia
- BrandLaureate Banker of the Year Award 2012 – 2013
- Best CEO (Investor Relations) 2014 for Malaysia
- Asian Corporate Director Recognition Award 2014 for Malaysia
- Banker Extraordinaire 2015
- Global Chinese Entrepreneur Lifetime Achievement Award 2015
- BrandLaureate "Icon of Icons - The King of Banking"
- Asia's Best CEO (Investor Relations) 2015 for Malaysia

- William "Bill" Seidman Lifetime Leadership Achievement in Financial Service Industry Award 2015
- Asian Corporate Director Recognition Award 2015 for Malaysia
- Asia's Best CEO (Investor Relations) 2016 for Malaysia
- Asian Corporate Director Recognition Award 2016 for Malaysia
- Asia's Best CEO (Investor Relations) 2017 for Malaysia

Tan Sri Dato' Sri Dr. Teh was awarded the Medal 'For the Course of Vietnamese Banking' by the State Bank of Vietnam in 2002 for his contributions to the Vietnamese banking industry over the past years. Tan Sri Dato' Sri Dr. Teh was conferred the Recognition Award 2007 by the National Bank of Cambodia in appreciation of his excellent achievement and significant contribution to the banking industry in Cambodia.

Tan Sri Dato' Sri Dr. Teh was conferred the Royal Order of Monisaraphon, Commander by The Royal Government of The Kingdom of Cambodia in 2016, in recognition of his outstanding leadership and immense social economic contributions towards the progress and development of Cambodia over the last 24 years. He is the first Malaysian banker ever to receive the Royal Order.

Tan Sri Dato' Sri Dr. Teh was awarded the "Medal for the Development of Vietnam Banking Industry" in 2017 by the State Bank of Vietnam in recognition for his manifold contribution to the construction and development of Vietnam's banking industry. Tan Sri Teh is the first foreign Banker in Vietnam to be awarded this medal.

In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

Tan Sri Dato' Sri Dr. Teh had served in various capacities in public service bodies in Malaysia; he was a member of the Malaysian Business Council from 1991 to 1993; a member of the National Trust Fund from 1988 to 2001; a founder member of the Advisory Business Council since 2003; and a member of the IPRM Accreditation Privy Council.

He is an Emeritus Fellow of the Malaysian Institute of Management and is a Fellow of the Asian Institute of Chartered Bankers; the Chartered Institute of Bankers, United Kingdom; the Institute of Administrative Management, United Kingdom; and the Governance Institute of Australia.

He is the Chairman of Public Bank Bhd, a public company listed on the Main Market of Bursa Malaysia Securities Berhad. His directorships in other companies are as Chairman of Public Mutual Bhd, Public Financial Holdings Ltd, Public Bank (Hong Kong) Ltd and Cambodian Public Bank Plc; and several other subsidiaries of Public Bank Bhd. He is a Director of Public Investment Bank Bhd and Public Islamic Bank Bhd, both subsidiaries of Public Bank Bhd.

Tan Sri Dato' Sri Dr. Teh attended 10 Board Meetings which were held during the financial year ended 31 December 2017.

BOARD OF DIRECTORS' PROFILE

**Mr. Tee Choon Yeow****Independent Non-Executive Co-Chairman**

Mr. Tee Choon Yeow, aged 65, male, was appointed to the Board of the Company on 29 October 1991. He was the Chief Executive Officer/ Executive Director of the Company until he retired in 2013 and thereafter served as a Non-Independent Non-Executive Director (NINED) of the Company. Mr. Tee was re-designated as Independent Non-Executive Director with effect from 1 March 2015 and appointed as Co-Chairman of the Company on 8 July 2015. He is also a NINED and Chairman of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd, a public company. Presently, Mr. Tee serves as Chairman of the Nomination & Remuneration and Risk Management Committees of the Company and a member of the Audit Committee of the Company.

Mr. Tee holds a Bachelor's Degree in Commerce from the University of Canterbury, New Zealand. He joined the Company as an Accountant in 1980. He is a Chartered Accountant of the Institute of Chartered Accountants, New Zealand and the Malaysian Institute of Accountants and a Fellow of the CPA Australia.

Mr. Tee attended all the 12 Board Meetings which were held during the financial year ended 31 December 2017.

Mr. Tan Kok Guan**Chief Executive Officer/ Executive Director**

Mr. Tan Kok Guan, aged 61, male, was appointed to the Board of the Company on 29 October 1996. He was an executive director of the Company from October 1996 to May 1999 and thereafter served as a Non-Independent Non-Executive Director to July 2013. He was appointed as Chief Executive Officer/ Executive Director of the Company with effect from 8 July 2013. Presently, Mr. Tan serves as a member of the Investment Committee of the Company.

Mr. Tan holds a Bachelor's Degree with Honours in Science from the University of London, United Kingdom and a Master's Degree in Business Administration from the University of Hawaii. He is also a Chartered Insurer of the Chartered Insurance Institute in London and an Associate of the Malaysian Insurance Institute in Kuala Lumpur.

Mr. Tan attended all the 12 Board Meetings which were held during the financial year ended 31 December 2017.



BOARD OF DIRECTORS' PROFILE



Mr. Lee Chin Guan

Independent Non-Executive Director

Mr. Lee Chin Guan, aged 59, male, was appointed to the Board of the Company on 8 October 2015. He is also an Independent Non-Executive Director (INED) of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd, a public company. As Mr Lee had left the Board of the Company for 8 years from October 2007 to October 2015, he is deemed as Independent Non-Executive Director commencing his appointment from 8 October 2015 as advised by Securities Commission. Presently, Mr. Lee serves as Chairman of the Audit Committee and a member of the Risk Management and Nomination & Remuneration Committees of the Company.

Mr. Lee qualified as a Barrister-at-Law from the Middle Temple, United Kingdom in 1982. He also holds a Bachelor's Degree in Science (Hons.) from the University of Manchester Institute of Science & Technology, England and Degrees in Law from Cambridge University, Oxford University and Chicago-Kent College of Law.

His directorships in other companies are as Director of Public Financial Holdings Ltd, Public Bank (Hong Kong) Ltd and Public Finance Ltd.

Mr. Lee attended all the 12 Board Meetings which were held during the financial year ended 31 December 2017.



Mr. Quah Poh Keat

Non-Independent Non-Executive Director

Mr. Quah Poh Keat, aged 65, male, was appointed to the Board of the Company on 2 January 2009. He is also a Non-Independent Non-Executive Director of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd, a public company. Presently, Mr. Quah serves as a member of the Audit, Nomination & Remuneration and Risk Management Committees of the Company.

He is a Fellow of the Malaysian Institute of Taxation and the Association of Chartered Certified Accountants; and a Member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Mr. Quah was a partner of KPMG since October 1982 and was appointed Senior Partner (also known as Managing Partner in other practices) in October 2000 until 30 September 2007. He retired from the firm on 31 December 2007.

Mr. Quah is experienced in auditing, tax and insolvency practices and has worked in Malaysia and the United Kingdom; his field of expertise includes restructuring, demergers and privatisation.

Mr Quah had served as the Deputy Chief Executive Officer of Public Bank Bhd from 1 October 2013 until 31 December 2015. His directorships in other companies are as Director of Public Mutual Bhd, Public Financial Holdings Ltd, Public Bank (Hong Kong) Ltd, Cambodian Public Bank Plc, Campu Lonpac Insurance Plc and Campu Securities Plc, and other subsidiaries of Public Bank Bhd. His directorships in other public companies listed on the Main Market of Bursa Malaysia Securities Berhad include Kuala Lumpur Kepong Berhad, Paramount Corporation Berhad and Malayan Flour Mills Berhad.

Mr. Quah attended all the 12 Board Meetings which were held during the financial year ended 31 December 2017.



Ms. Chan Kwai Hoe

Independent Non-Executive Director

Ms. Chan Kwai Hoe, aged 61, female, was appointed to the Board of the Company on 1 July 2015. She is also an Independent Non-Executive Director of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd, a public company. Presently, Ms. Chan serves as a member of the Audit, Nomination & Remuneration and Risk Management Committees of the Company.

Ms. Chan holds a Bachelors Degree in Analytical Economics, University of Malaya (Honours).

Ms. Chan has gained extensive experience during her tenure with Bank Negara Malaysia (BNM). She has been involved in operations and policy formulation relating to the insurance industry, as well as in supervision, having overseen the financial health and proper market conduct of a select group of insurers, brokers and adjusters. She was also in charge of the Learning, Knowledge and Customer Relationship Management of 13 departments of BNM, and managed a project to put in place the Financial Services Act 2013 and Islamic Financial Services Act 2013.

She retired from BNM in May 2012 and acted as Advisor to the Chief Executive Officer of Perbadanan Insurans Deposit Malaysia, mainly on issues relating to FIDE (Financial Institutions Directors' Education Programme) Forum until March 2013.

Ms. Chan attended all the 12 Board Meetings which were held during the financial year ended 31 December 2017.



Ms. Kong Thian Mee

Company Secretary

Ms. Kong Thian Mee was appointed as Company Secretary of LPI Group on 1 August 2000 and heads the Group's Secretariat Department. She relinquished her position as Company Secretary of Lonpac Insurance Bhd (Lonpac) and remains as Company Secretary of the Company with effect from 10 April 2017. She is the Secretary for all the Board Committees of the Company. She is also a member of the Investment Committee of the Company. Further, Ms Kong is also the Company Secretary of an associate company, Campu Lonpac Insurance Plc.

Ms. Kong is a Chartered Secretary (ICSA) and a Fellow of The Malaysian Institute of Chartered Secretaries and Administrators.

NONE OF THE DIRECTORS HAS :

- Any family relationship with any Director and/ or major shareholder of LPI Capital Bhd.
- Any conflict of interest in any business arrangement involving LPI Capital Bhd.
- Any convictions for any offences within the past 5 years other than traffic offences.
- Any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

All the Directors are Malaysians.



C

HAIRMAN'S STATEMENT

Non-Independent Non-Executive Chairman Tan Sri Dato' Sri Dr. Teh Hong Piow

T O O U R V A L U E D S H A R E H O L D E R S ,

It gives me great pleasure to report that LPI Capital Bhd (“LPI”) and its wholly-owned subsidiary Lonpac Insurance Bhd (“Lonpac”) put in a commendable performance for the financial year ended 31 December 2017. The performance is all the more laudable within the context of the operating environment in the previous year, when Phase 2 of the Liberalisation Framework was implemented thereby engendering keener competition in both Motor and Fire classes of insurance. From this perspective, it is clear that the LPI Group has put the right strategies and people in place to make the most of the opportunities presented by the new regime.

As we expected, liberalisation has placed additional pressure on insurers to create greater value for their customers, and the price competition brought about by the influx of new players has compressed margins. This is evident from Lonpac’s total gross written premiums for the year under review, which registered growth of 11.2% as compared against the previous year. Its claims incurred ratio increased slightly to 38.5% from 38.3%, contributing to the slight increase in our combined ratio to 64.0% from 63.7%.

LPI’s profit before tax (“PBT”) moderated to RM403.7 million from RM518.9 million, representing a year-on-year (“y-o-y”) decline of 22.2%. However, stripping out the one-time gains from the divestment of equity investments in 2016 of RM150.4 million, the operational PBT would have grown 9.6% reflecting a strengthening in our business performance.

I am pleased to announce that the Board of LPI has declared a second interim single tier dividend of 45 sen for the financial year ended 31 December 2017, bringing our total dividend payout to 72 sen per share.

OUR STRATEGY AND PROSPECTS

While uncertainty continues to dominate the external operating environment, the Malaysian economy has managed to sustain its recovery and is expected to remain steady in 2018. The Ringgit continues to recover from multi-year lows in 2017 due to the net inflow of foreign funds as well as the weakening of US Dollar against other currencies. Foreign fund inflow has been encouraging as it suggests that the fundamentals and prospects of the country are healthy and have improved from the previous year.

CHAIRMAN'S STATEMENT

Forecasts for the Malaysian economy were buoyed by the country's performance in third quarter ("Q3") 2017 where Gross Domestic Product ("GDP") expansion exceeded expectations by growing 6.2%. Driven by stronger than expected domestic demand, the performance led research houses to improve their forecast for the Malaysian economy by several percentage points.

According to Bank Negara Malaysia Governor Tan Sri Muhammad Ibrahim, the Malaysian economy was on course to reach the upper ranges of the 5.2%-5.7% growth rate pegged for 2017. The better-than-expected performance caused ratings agency RAM Ratings to revise its GDP growth forecast for 2017 higher, and has pegged growth for 2018 to come in at 5.2%.

Despite the positive indicators, we are firmly aware that we are operating in a period of prolonged volatility where prospects and operating conditions can swing wildly at any time. The prolonged political uncertainties around the world may introduce turbulence into global markets, which may in turn have a knock-on effect on Malaysia's growth prospects. Additionally, global commodity prices, particularly crude oil price, have yet to stabilise thereby adding to commercial and industrial instability.

Nevertheless, we believe that the Group, with its long-standing prudential approach to risk management, is adequately equipped to manage uncertainties as they rise, and should continue to perform well in the coming year. Additionally, the Group's efforts to make the most of the new opportunities arising from the new liberalised premium structure has proven fruitful, and will provide additional buffer against new market challenges.

As per the Group's DNA, priority will be placed on prudential and organic growth in growing our business despite the growing number of competitors in the marketplace. We expect to see more changes in the insurance landscape as liberalisation gains greater traction, but are confident of defending our market share. To support our presence in the new liberalised regime, we have created a Product Development team, which is focused on integrating all factors to meet customer demand and make the most of opportunities presented by liberalisation.

LEVERAGING ON TECHNOLOGY

One key observation that we have made over the last few years is the growing number of technologically savvy customers with a preference for managing their insurance portfolios themselves online. The Group's existing web platform and various digital tools have become increasingly popular with this segment of the community, but we believe that more can be done to capitalise on this new trend.

In 2017, Lonpac established its Digital Strategy Department to enhance its digital offerings by leveraging on various platforms including mobile apps, social media and an enhanced web platform. This investment in technology will help them better engage with the new online generation to further expand its business segments and strengthen its market position. The Department will also establish a comprehensive digital strategy to transform Lonpac into a true digital business by the end of 2019.

We foresee technology as a major factor which will dramatically affect the insurance industry with the emergence of insurance technology ("insuretech") as well as the shifting mindsets of our customers. Customer satisfaction is a key pillar of our business philosophy and we will be putting in the necessary enhancements to meet the needs of the digital generation. In addition, our investment in technology will also help us bring costs down as we improve operational efficiencies through greater automation and digitisation.

DEVELOPING OUR SUSTAINABILITY PROGRAMME

LPI produced its first Sustainability Report in 2016, which was issued together with the Company's Annual Report 2016. Since then, senior management from Lonpac and LPI have worked closely together with the Sustainability Committee to improve our reporting methodology and to make our sustainability programme more robust. I am pleased to report that we have made much headway in our sustainability initiatives during this past year and that we continue to improve on our benchmarking and reporting processes.

In this second report, we have reviewed and revised our materiality matrix by consulting a broader range of stakeholders. In the course of this revision, we discovered that stakeholder expectations and our own expectations were not entirely aligned. Our next course of action is to examine the disparity between the stakeholder groups to see if we can better fulfil our sustainability role and to narrow the gap between them.

We are also leveraging on technology to better dispense with our sustainability goals. The practice of using e-statements and paperless payments may seem elementary, but they have gone far in helping us reduce the size of our environmental footprint. But more importantly, technology is helping us foster a paperless culture to bring about change on a larger scale. Our sustainability activities for 2017 are documented in our Sustainability Report 2017, which can be found in the Company's Annual Report 2017.

ACKNOWLEDGEMENTS

On behalf of LPI's Board of Directors, I would like to thank the Management and staff of LPI Group for their efforts and hard work in securing yet another year of strong results. Operating conditions have become more challenging with the implementation of the liberalisation framework, but with greater challenge also comes greater rewards. Our team has demonstrated that they have the necessary quality to seize these opportunities and we look forward to even better performances in future.

The Board would also like to thank our customers and shareholders who have supported us through good times and bad. My hope is that you have felt richly served by the LPI Group, be it in terms of the insurance products you have purchased or in terms of the returns from your investment with us. We remain committed to creating value for you through our products and services, as well as through the returns from your investment in us.

To our regulators and governing authorities, we would like to extend our gratitude for your support and advice extended to us throughout the year. The Group remains committed to the constructive development of the insurance industry as well as nation building as a whole, and we look forward to future opportunities to work together.

Last but not least, I would like to express my personal thanks to my fellow Board members for their advice and contributions in steering the Company. We would not have performed as remarkably as we did without your effort, and I look forward to another productive year together with all of you on the Board.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Non-Independent Non-Executive Chairman

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“Board”) and Management of LPI Group strongly uphold to the highest standards of corporate governance and affirm that good corporate governance is vital to the continuous growth of the LPI Group. The Group remains resolute in ensuring uncompromised integrity and performance with a good record of delivering long-term sustainability and creating economic value for its shareholders as well as protecting other stakeholders’ interests.

As a public company listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) with an insurance subsidiary, Lonpac Insurance Bhd (“Lonpac”), licensed under the Financial Services Act 2013 (“FSA”), LPI Group conforms to the requirements, principles and best practices of corporate governance established by the following:

- Bursa Securities’ Main Market Listing Requirements (“LR”)
- Policy Document on Corporate Governance (“Policy Document”) issued by Bank Negara Malaysia (“BNM”)
- The Malaysian Code on Corporate Governance (“MCCG”) issued by Securities Commission Malaysia

The Board, Management and staff are proud to announce that the Group’s endless commitment to excellent corporate governance and sound corporate conduct has continued to win awards and recognitions in 2017:

1) Minority Shareholder Watchdog Group (“MSWG”) – ASEAN Corporate Governance Recognition 2017

LPI was awarded the following by the MSWG:

- Excellence Award for Overall Corporate Governance & Performance (3rd in Overall Category);
- Industry Excellence Award – Financial; and
- Excellence Award for Long-Term Value Creation.

The MSWG – ASEAN Corporate Governance Awards 2017 recognised public listed companies with the best corporate governance practices and disclosures.

2) The Edge Billion Ringgit Club Corporate Awards 2017

LPI was conferred the Gold Award on Highest Growth in Profit After Tax Over Three Years and Silver Award on Highest Returns to Shareholders Over Three Years under the Finance Sector category below RM10 billion market capitalisation of The Edge Billion Ringgit Club Corporate Awards 2017. LPI has been admitted as a member of The Edge Billion Ringgit Club since it was first launched in 2010.

3) The BrandLaureate Most Sustainable Brand Awards 2016-2017 for brand excellence in General Insurance

Lonpac was conferred The BrandLaureate Most Sustainable Brand Awards 2016-2017 for brand excellence in General Insurance by Asia Pacific Brands Foundation. The BrandLaureate awards are conceptualised to honour the brands that have demonstrated strong brand leadership and performance and delivered on their brand promises. Lonpac has won The BrandLaureate awards for seven consecutive years since 2011.

4) Majikan Terbaik Wilayah Persekutuan Kuala Lumpur 2017

Lonpac was conferred Majikan Terbaik Wilayah Persekutuan Kuala Lumpur 2017 by Kumpulan Wang Simpanan Pekerja (“KWSP”) in recognising its excellent monthly contribution, constant usage of e-Payment, clean record on Unpostable Contribution, complaint-free from employees as well as full compliance with other KWSP procedures.

5) Excellent Financial Strength Rating by A.M. Best

Lonpac has been accorded a financial strength rating of A- (Excellent) and long-term issuer credit rating of “a-” by A.M. Best.

BOARD OF DIRECTORS

The Board is fully committed to ensuring that the highest standards of corporate governance are observed throughout the Group so that the affairs of the Group are conducted in a transparent and objective manner with full accountability and integrity to safeguard stakeholders’ interest.

I DIRECTORS

The Board

The Board is responsible for the overall governance of the Group by providing strategic guidance and putting in place succession plans of the Group, the effective monitoring of management goals, accountability to the Group and shareholders as well as ensuring that the Group’s internal controls, risk management and reporting procedures are well in place. The Board Members exercise due diligence and care in discharging their duties and responsibilities to ensure that high ethical standards are applied through compliance with relevant rules and regulations, directives

and guidelines in addition to adopting the Policy Document issued by BNM and MCGG issued by Securities Commission Malaysia, and act in the best interests of the Group and its shareholders.

The Board Members are attentive to applying high ethical standards in their decision-making, taking into account the interests of all stakeholders.

Board Charter

The primary objective of the Company's Board Charter ("Charter") is to set out the mandate, responsibilities and procedures of the Board in accordance with the principles of good corporate governance stated in the policy documents, guidelines and requirements issued by regulatory authorities. The Board is guided by the Charter which provides reference for directors in relation to the Board's role, powers, duties and functions. The Charter also outlines processes and procedures for the Board to be effective and efficient. The Board had reviewed the Charter on 25 October 2017 to ensure it remains consistent with the Board's objectives and responsibilities, and all the relevant standards of corporate governance. A copy of the Charter is available on the Group's website at www.lonpac.com.

The Charter encompasses the following main areas:

- Board Size and Composition.
- Position Description for Chairman, Co-Chairman, Chief Executive Officer ("CEO")/ Executive Director and Non-Executive Director(s).
- Board Committees.
- The Responsibilities of the Board/ Formal Schedule of Matters that are reserved for the Board's Deliberation and Decision Making.
- Conduct of Board Meetings.
- Access to Information and Independent Advice.
- Directors' Training and Continuing Education.
- Time Commitment.
- Board Policies.
- Review of Charter.

Board Composition, Diversity and Independence

In year 2017, the Board consists of 6 members of which one member is an Executive Director cum CEO. Out of the 5 remaining Non-Executive Directors, 4 are independent directors. The present composition complies with the composition requirement as stated in Bursa Securities' Main Market LR as more than 1/3 of the Board Members are independent directors.

The Independent Non-Executive Directors do not engage in the day-to-day management of the Group and do not participate in any business dealings and are not involved in any other relationship with the Group that could reasonably be perceived to materially interfere with their exercise of unfettered and independent judgement. This is to enable the Independent Non-Executive Directors to discharge their duties and responsibilities effectively and to avoid any conflict of interest situations. The Independent Non-Executive Directors also provide independent and objective views, assessment and suggestions in deliberations of the Board, and ensure effective check and balance in the functioning of the Board.

There is a clear division of roles and responsibilities between the Chairman/ Co-Chairman and the Executive Director cum CEO. The terms of reference of the Non-Independent Non-Executive Chairman and the Independent Non-Executive Co-Chairman are distinct and separate from the duties and responsibilities of the Executive Director cum CEO to ensure a balance of power and authority in an effective Board.

Tan Sri Dato' Sri Dr. Teh Hong Piow, Founder and Chairman of LPI and Public Bank, is widely acclaimed both domestically and internationally as a banking grandmaster. He has received numerous awards for his par excellence achievements as a banker, CEO and transformational leader. Tan Sri Dato' Sri Dr. Teh Hong Piow has received countless prestigious awards in recognition of his significant contributions to the banking and finance industries, and for his socioeconomic development initiatives, both locally and abroad.

Mr. Tee Choon Yeow, the Independent Non-Executive Co-Chairman, is the former CEO of the Company prior to his retirement in 2013. He possesses extensive knowledge and experience in the insurance industry through his long service with the Group. He was appointed as Co-Chairman of the Board on 8 October 2015.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Mr. Tan Kok Guan, the CEO/ Executive Director, is a Chartered Insurer and an Associate Member of both the Chartered Insurance Institute in London and Malaysian Insurance Institute in Kuala Lumpur, Malaysia. His vast experience and depth of knowledge in the insurance industry has contributed to strategic leadership to the Management and Group.

The other 3 Independent Non-Executive Directors, Mr. Quah Poh Keat, Ms. Chan Kwai Hoe and Mr. Lee Chin Guan are professionals in their own right with wide-ranging experiences, skills and expertise in various fields.

The profile of the Members of the Board are presented on pages 40 to 45 of this Annual Report.

According to the Company's Board Diversity Policy, the Board recognises diversity as an important criteria to determine board composition and to ensure that different perspectives are considered for Board effectiveness and strength. Increasingly, diversity is considered an essential measure of good governance and is a critical attribute of a well-functioning board. Board diversity includes gender, ethnicity, age, business experience, skills and cultural background. Diversity leads to the consideration of all facets of an issue and, consequently, better decisions and performance. The Board would consider appropriate targets in the achievement of Board Diversity Policy including gender balance on the Board and would take the necessary measures to meet these targets from time to time as appropriate. The Board will work towards increasing to 30% women participation on the Board, by 2020.

The Board and Nomination & Remuneration Committee, in reviewing and assessing suitable candidates for the Board and in performing annual assessment on each Director, would be guided by the above policy on diversification.

During the year under review, the Nomination & Remuneration Committee and the Board had performed annual assessments on all individual Directors and ensured that all Directors have met fit and proper criteria as per relevant regulatory requirements and internal policies.

The Nomination & Remuneration Committee has developed the following assessment criteria for the assessment on the independence of the Independent Directors:

- (i) Criteria for Independent Director as per Bursa Securities' Main Market LR; and
- (ii) In carrying out his responsibilities as Independent Director as stated in the Board Charter.

The Board has also established a policy on maximum tenure of 9 years for Independent Directors during the year, as recommended by Nomination & Remuneration Committee.

Recommendation 4.2 of MCCG states that the tenure of an independent director should not exceed a cumulative term of 9 years. Mr. Quah Poh Keat joined the Company as a Director on 2 January 2009 and he has served as an Independent Director for a cumulative term of more than nine years on 2 January 2018.

As such, Mr. Quah is deemed as Non-Independent Non-Executive Director effective from 2 January 2018.

The Nomination & Remuneration Committee and the Board, through their annual assessment on Independent Directors, were satisfied that they have:

- (i) fulfilled the criteria under the definition of Independent Director pursuant to Main Market LR of Bursa Securities, upon noting the annual declaration of the independence by the Independent Directors; and
- (ii) carried out their responsibilities as follows:
 - Provide independent and objective views, assessment and suggestions in Board's deliberations;
 - Ensure effective check and balance in the Board's proceedings;
 - Monitor and provide an objective view on the performance of executive directors and management in meeting the agreed goals and objectives;
 - Contribute to the development of the business strategies and direction of the Company; and
 - Mitigate any possible conflict of interest between the policy-making process and day-to-day management of the Company.

The Board further agreed with the assessment of the Nomination & Remuneration Committee that all Independent Directors have remained objective and continued to bring independent and objective judgements to the Board deliberations and decision making.

The Nomination & Remuneration Committee has also annually assessed the performance of the Board as a whole and each respective Board Committee, benchmarking the activities carried out against the Board Charter and the terms of reference of each Board Committee, and concluded that the Board and the various Board Committees have carried out their roles effectively and efficiently.

The annual assessment on all individual directors, board as a whole and board committees, were conducted via peer review assessment.

The Nomination & Remuneration Committee and the Board were satisfied that in view of the size of the Group and its business complexity, the size of the Board is optimum for effective deliberations at Board meetings and efficient conduct of Board meetings, and that there is an appropriate mix of gender, age, knowledge, skills, attributes and core competencies in the Board's composition.

The Nomination & Remuneration Committee and the Board concluded that all members of the Board are suitably qualified to hold their positions in the Board and the respective Board Committees as all Directors are persons of high calibre and integrity, and their knowledge and expertise in their respective fields have thereby enhanced the effectiveness of the Board and Board Committees.

The Board has not engaged any independent expert to facilitate objective and candid board evaluations in year 2017. In line with MCCG, the Board will appoint an independent expert to carry out board evaluations once in every 5 years from the year 2020.

Code of Conduct and Ethics for Directors

The Board has established a Code of Conduct and Ethics for Directors ("Code") that aims to outline the standards of business conduct and ethical behaviour which the Directors should possess in discharging their duties and responsibilities, and to enhance the high standards of personal integrity and professionalism of the Directors.

The Code is based on the following principles:

- Compliance with legal and regulatory requirements, and Group's policies;
- Observance of Board Charter;
- Duty to act in the best interests of the Group;
- Competence;
- Integrity;
- Objectivity;
- Confidentiality; and
- Fairness.

In addition, the Board also adopted Policy on Directors' Conflict of Interest, which aimed to guide the Board in managing directors' conflict of interest.

Directors should observe the following to avoid conflict of interest:

- Not making improper use of information;
- Not making secret profits;
- Making full disclosure in relation to contracts with the Company under relevant regulatory requirements;
- Observing duty of disclosure to Company Secretary;
- Observing duty to refrain from participation and voting where a Director has a direct or indirect interest; and
- Complying with related party transactions provisions pursuant to relevant statutory requirements.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Directors are required to disclose actual or perceived conflict of interest and refrain from attempting to influence any decisions in which they may have or be perceived to have a conflict of interest. Directors will manage conflict of interest by the following:

- Disclose conflict of interest;
- Manage and control the conflict; and
- Refrain from any activity where necessary to avoid conflict of interest.

Directors will disclose existing or perceived conflict of interest prior to the commencement of each Board Meeting. The Company Secretary will respond to disclosures by:

- Recording in the minutes of the meeting a Director's disclosure of a conflict of interest relating to particular agenda items; and
- Recording in the minutes of the next meeting a Director's conflict of interest disclosure made outside of meeting times.

A copy of the Code and Policy on Directors' Conflict of Interest is published on the Group's website at www.lonpac.com.

Duties and Responsibilities of the Board

The core responsibilities of the Board include reviewing and approving the Group's business strategies and plans, significant policies, and monitoring the Management's performance in implementing them.

In carrying out their duties and responsibilities, the Board exercises great care to ensure that high ethical standards are upheld, and that the interests of stakeholders are not compromised. The Board Members are constantly mindful that the interests of the Group's stakeholders are always being protected.

The Board's principal functions include the following responsibilities:

- Set the risk appetite within which the Board expects Management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks.

- Ensure that Senior Management has the necessary skills and experience, and there are measures in place to provide for the orderly succession of Board and Senior Management.
- Oversee the implementation of the Company's governance framework and internal control framework, and periodically review whether these remain appropriate in the light of material changes to the size, nature and complexity of the Company's operations.
- Promote, together with Senior Management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour.
- Promote sustainability through appropriate environmental, social and governance considerations in the Company's business strategies. Also ensure that the strategic plan of the Company supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability.
- Oversee and approve the recovery and resolution as well as business continuity plans for the Company to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress.
- Review, challenge and decide on Management's proposals for the Company, and monitor its implementation by Management.
- Supervise and assess management performance to determine whether the business is properly being managed.
- Ensure there is a sound framework for internal controls and risk management.
- Understand the principal risks of the Company's business and recognise that business decisions involve the taking of appropriate risks.
- Ensure the integrity of the Company's financial and non-financial reporting.
- Ensure that the Company has in place procedures to enable effective communication with stakeholders.

The Chairman, in leading the Board in its collective oversight of management, is responsible for the effective overall functioning of the Board. In fulfilling this role, the Chairman:

- manages the interface between Board and Management and provides support and guidance to Senior Management Officers to help facilitate Management succession planning.
- grooms and mentors Senior Management Officers to achieve consistently high levels of professionalism and excellent performance.
- provides leadership to the Board and is responsible for the developmental needs of the Board.
- ensures that appropriate procedures are in place to govern the Board's operation.
- leads the Board in establishing and monitoring good corporate governance practices in the Company.

The Co-Chairman:

- ensures the smooth functioning of the Board and the governance structure, and inculcating positive culture in the Board.
- ensures that procedures and processes are in place to facilitate effective conduct of business by the Board.
- chairs Board meetings and encourages active participation and healthy discussion to ensure that dissenting views can be freely expressed and discussed.
- ensures that decisions are taken on a sound and well-informed basis, including by ensuring that all strategic and critical issues are considered by the Board, and that Directors receive the relevant information on a timely basis.
- provides leadership to the Board and is responsible for the developmental needs of the Board.
- chairs General meetings of the Company and provides clarification on issues that may be raised by the shareholders.
- ensures that appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the Board as a whole.

The CEO/ Executive Director is responsible for:

- the business and day-to-day management of the Company;
- providing leadership to Management;
- formulating strategic vision and business directions for the Company;
- the developing and implementing of corporate strategies to meet performance targets without neglecting longer-term growth opportunities of the Company;
- ensuring that Board decisions and policies set for the Management by the Board are implemented effectively; and
- keeping the Board well informed of salient aspects and issues concerning the Company's operations and ensuring that adequate management reports are submitted to the Board.

The 4 Independent Non-Executive Directors, by virtue of their roles and responsibilities, in effect represent the minority shareholders' interests in LPI Group. The Independent Non-Executive Directors engage proactively with the Management and with both the external and internal auditors. This is particularly so in the case of Mr. Tee Choon Yeow who is the Chairman of the Risk Management Committee and Mr. Lee Chin Guan who is the Chairman of the Audit Committee.

The Independent Non-Executive Directors play a significant role in bringing objectivity and scrutiny to the Board's deliberations and decision-making. They also serve to inspire and challenge the Management in an objective and constructive manner. In enhancing the function of the Independent Non-Executive Directors, the Board has also defined their roles and responsibilities to include the following:

- Provide independent and objective views, assessment and suggestions in Board's deliberations;
- Act as a bridge between Management and stakeholders, particularly shareholders and ensure that the Company has in place the procedures to enable effective communication with stakeholders;
- Provide the relevant checks and balances during board deliberations and safeguard shareholders' and other stakeholders' interests, while ensuring high standards of corporate governance are applied;

CORPORATE GOVERNANCE OVERVIEW STATEMENT

- Mitigate any possible conflict of interest between the policymaking process and the day-to-day management of the Group; and
- Constructively challenge and contribute to the development of the business strategies and direction of the Group.

The Chairman of Audit Committee, Mr. Lee Chin Guan, is the designated Independent Non-Executive Director to whom concerns relating to the Group may be conveyed by the shareholders and other stakeholders.

The Directors are at liberty to obtain advice from independent professionals if deemed necessary for the proper discharge of their duties at the expense of the Company.

Board Meetings and Supply of Information to the Board

Board meetings for subsequent financial year are scheduled in advance before the end of current financial year so as to enable the Directors to plan accordingly and fit the year's Board meetings into their respective schedules. As stated in the Board Charter, the Board will meet at least 4 times in each financial year. Board meetings are convened upon the finalisation of LPI Group's quarterly and annual results, to review and approve the results for submission to Bursa Securities. Additional Board meetings are also held when warranted by situations such as to deliberate on urgent corporate proposals or matters that require expeditious direction of the Board.

Board meetings are conducted in accordance to a structured agenda. Board Members are provided with the structured agenda together with the relevant documents and information in reasonable time prior to the Board meeting. This is to facilitate the Directors to peruse the Board papers and seek clarification that they may require from the Management or the Company Secretary well ahead of the meeting date. Urgent papers may be presented for tabling at the Board meetings under supplemental agenda.

At the Board meetings, the Board reviews management reports on the business performance of the Company and its subsidiary, and reviews, inter-alia, the results compared to the preceding month and year-to-date, and also against the industry. As part of the integrated risk

management initiatives, the Board peruses the decisions and salient issues deliberated by Board Committees and Management Committees through minutes of these committees. The Board Members also deliberate, and in the process, evaluate the feasibility of business propositions and corporate proposals as well as any principal risks that would have significant impact on the Group's business and the measures to mitigate such risks.

The Chairman of the Audit Committee would inform the Directors at Board meetings of any significant audit findings deliberated by Audit Committee which require Board's attention and approval for implementation.

The Chairman of the Risk Management Committee would inform the Board on the salient matters discussed at Risk Management Committee meetings which require Board's direction.

The papers of the Board meetings are presented in a concise and comprehensive format. Board meeting papers include progress reports on business operations, detailed information on business propositions and corporate proposals including the relevant supporting documents.

The Directors have a duty to make an immediate declaration to the Board if they have any interests in transactions to be entered into directly or indirectly with LPI Group. The interested Directors would abstain themselves from deliberations and decisions of the Board on the transaction. In the event where a corporate proposal is required to be approved by shareholders, the interested Directors would abstain from voting, in respect of their shareholdings in LPI, on the resolutions relating to the corporate proposal, and will further undertake to ensure that persons connected to them similarly abstain from voting on the resolutions.

Minutes of Board meetings are circulated to all Directors for their perusal prior to the confirmation of the minutes at the following Board meeting. The Directors may request for further clarification or raise comments on the minutes prior to the confirmation of the minutes as a correct record of proceedings of the Board.

The Board has direct access to the Senior Management and has full and unrestricted access to any information relating to the Group's operations in the discharge of their duties and may require to be provided with further details or clarification on the Board meeting agenda items. The relevant Senior Management officers would be invited to attend Board meetings to brief the Board on matters relating to their respective areas of responsibility.

The Directors have ready and unrestricted access to the advice and services of the Company Secretary.

The Directors are regularly updated by the Company Secretary on any new statutory as well as regulatory requirements relating to the Directors' duties and responsibilities or the discharge of their duties as Directors of the Company.

The Company Secretary serves notice on closed period to the Directors and the principal officers to notify them of closed periods for trading in LPI shares, pursuant to the requirements stated in Bursa Securities' Main Market LR.

The Company Secretary attends all Board meetings and ensures that accurate and adequate records of the proceedings of Board meetings and the decisions made are properly kept.

The Directors remain fully committed in carrying out their duties and responsibilities as reflected by their attendance at the 12 Board meetings held during the financial year ended 31 December 2017 as follows:

Name of Director	Scheduled Board Meetings	Attendance
Non-Independent		
Tan Sri Dato' Sri Dr. Teh Hong Piow <i>Non-Executive Chairman</i>	12	10
Tan Kok Guan <i>Chief Executive Officer/ Executive Director</i>	12	12

Name of Director	Scheduled Board Meetings	Attendance
Independent		
Tee Choon Yeow <i>Non-Executive Co-Chairman</i>	12	12
Lee Chin Guan <i>Non-Executive Director</i>	12	12
Quah Poh Keat <i>Non-Executive Director</i>	12	12
Chan Kwai Hoe <i>Non-Executive Director</i>	12	12

All Directors have adequately complied with the minimum requirements on attendance at Board meetings as stipulated in Bursa Securities' Main Market LR (minimum 50% attendance).

Directors' attendance at Board meetings above reflected that the Directors have devoted sufficient time to prepare for and attend Board meetings, and maintained a sound understanding of the business of the Company as well as relevant market and regulatory developments.

During the year under review, the Directors have ensured their time commitment to discharge their duties effectively, as they do not hold more than five directorships in the public listed companies, detailed as below:

- Holding only one directorship: 4 Directors
- Holding two directorships: 1 Director
- Holding four directorships: 1 Director

While there is no restriction on directorships in non-listed issuers, Directors are aware that they should avoid over commitment in multiple directorships which may affect their performance in carrying out their role as Directors of the Company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Nomination and Election Process of Board Members

The appointment, re-appointment and annual assessment of Directors are set out in a formal and transparent procedure, the primary responsibility of which has been delegated to the Nomination & Remuneration Committee. This procedure is in line with all the relevant regulatory requirements and internal policies. Under this procedure, the Nomination & Remuneration Committee proposes nominees for appointment to the Board, and recommends to the Board on the appointment, re-appointment and assessment of the Directors for approval.

The Nomination & Remuneration Committee also oversees the overall composition of the Board in terms of the appropriate size and skills as well as the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required to be deemed fit and proper to be appointed as Director in accordance with all the relevant regulatory requirements through annual review. Further, the Nomination & Remuneration Committee is to ensure that all Directors fulfil fit and proper requirements as stated in the Policy and Procedure on Fit and Proper for Key Responsible Persons and Company Secretary (Policy and Procedure on Fit and Proper).

The Board, assisted by the Nomination & Remuneration Committee, considers the following aspects in making the selection:

- (i) Probity, Personal Integrity and Reputation – the person must have personal qualities such as honesty, integrity, diligence, independence of mind and fairness.
- (ii) Competency and Capability – the person must have the appropriate qualification, training, skills, practical experience and commitment to effectively fulfil the role and responsibilities of the position.
- (iii) Financial Integrity – the person must manage his debts or financial affairs properly and prudently.

The Board has established a clear and transparent Nomination Process for the Appointment of Directors. The nomination process involves the following 5 stages:

- (i) Identification of candidates;
- (ii) Evaluation of suitability of candidates;

- (iii) Meeting up with candidates;
- (iv) Final deliberation by Nomination & Remuneration Committee; and
- (v) Recommendation to Board.

Appointments to the Board/ Re-Appointment and Re-Election of Directors

The proposed appointment of a new Member to the Board will be deliberated by the full Board based upon a formal report, prepared by the Nomination & Remuneration Committee on the necessity for reviewing the qualifications and experience of the proposed director. The Nomination & Remuneration Committee would be guided by an internal policy on Criteria and Skill Sets for the Board Members and Chief Executive Officer in assessing the suitability of the potential candidates for appointment to the Board.

There was no new appointment of Directors in year 2017. The Board would consider using independent sources in identifying suitable candidates for appointment of directors in future via different directors recruitment agencies by year 2020.

In accordance with the Company's Memorandum and Articles of Association (Constitution), 1/3 of the Directors, or, if their number is not a multiple of 3, the number nearest to 1/3 with a minimum of 1, shall retire from office at each Annual General Meeting ("AGM") and they may offer themselves for re-election. Directors who are appointed by the Board during the financial period before the AGM are subject to re-election by the shareholders at the first opportunity after their appointments.

The Nomination & Remuneration Committee carries out annual assessment of each Director's contribution to the Company, and recommends the Directors who will be subject to re-election at the next AGM, to the Board and shareholders for approval.

II DIRECTORS' REMUNERATION POLICIES AND PROCEDURES

The Nomination & Remuneration Committee reviews the remuneration of the Directors annually and submits its recommendations to the Board on specific adjustments and/ or reward payments that reflect their respective contributions throughout the year, and are also competitive and are in tandem with the Group's corporate objectives, culture and strategy.

The Nomination & Remuneration Committee and the Board would ensure that the remuneration policy for the Directors remains competitive to attract and retain Directors of such calibre to provide the necessary skills and experience and to commensurate with the responsibilities for the effective Board.

The remuneration packages for Executive Directors should involve a balance between fixed and performance-linked elements. The relative weightage of fixed and variable remuneration for target performance varies with level of responsibility, complexity of the role and typical market practice. The executive remuneration should be set at a competitive level for similar roles within comparable markets to recruit and retain high quality senior executives. Individual pay levels should reflect the performance, skills and experience of the Director as well as the responsibility undertaken and is structured so as to link the short and long-term rewards to both corporate and individual performance.

For Non-Executive Directors, the review of the Directors' fees should take into account the fee levels, the trends for similar positions in the market and the time commitment required from the director.

The following criteria are to be considered by the Nomination & Remuneration Committee in developing the remuneration package:

- (a) Determine Company's performance indicators via revenue, profit before tax, profit after tax, earnings per share, return on equity etc;
- (b) In reviewing the remuneration package, the complexity of the Group's business and the individual's responsibilities should be taken into account and that the package should be aligned with the business strategy and long-term objectives of the Company. The remuneration and incentives for Independent Directors should not conflict with their obligation to bring objectivity and independent judgment on matters discussed at Board meetings;
- (c) To review the Nomination & Remuneration Committee's annual assessment on each Director and develop the remuneration package taking into consideration the performance, achievement and time commitment of each Director; and
- (d) Propose the recommendation of the remuneration package to the Board for approval.

The above policies and procedures will be reviewed every five (5) years.

Each individual Director abstains from the Board decision on his own remuneration package. Directors' fees are approved at the AGM by the shareholders.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Details of the Directors' remuneration (including benefits-in-kind) for each Director during the financial year 2017 are as follows:

Company

	RM'000					Total
	Salaries	Fees	Bonuses	Other Remuneration	Benefits- in-kind	
Executive Director						
Tan Kok Guan	936	120	1,017	235	38	2,346
Non-Executive Directors						
Tan Sri Dato' Sri						
Dr. Teh Hong Piow	–	300	–	–	–	300
Tee Choon Yeow	–	185	–	–	–	185
Lee Chin Guan	–	120	–	–	–	120
Quah Poh Keat	–	120	–	–	–	120
Chan Kwai Hoe	–	120	–	–	–	120
Total	936	965	1,017	235	38	3,191

Group

	RM'000					Total
	Salaries	Fees	Bonuses	Other Remuneration	Benefits-in-kind	
Executive Director						
Tan Kok Guan	936	270	1,017	258	38	2,519
Non-Executive Directors						
Tan Sri Dato' Sri						
Dr. Teh Hong Piow	–	670	–	11	31	712
Tee Choon Yeow	–	415	–	71	–	486
Lee Chin Guan	–	270	–	71	–	341
Quah Poh Keat	–	270	–	71	–	341
Chan Kwai Hoe	–	270	–	71	–	341
Mohd Suffian Bin Haji Haron	–	88	–	40	–	128
Total	936	2,253	1,017	593	69	4,868

III DIRECTORS' TRAINING AND EDUCATION

The Board acknowledges that Directors' training is an ongoing process to continually develop and refresh their knowledge and skills, and to update themselves on developments in the financial industry and business landscape both domestically and internationally.

During the financial year 2017, all Directors had attended various training programmes, talks, dialogue sessions and forums organised by external professionals, according to respective Director's own training needs in carrying out their duties as Directors and also keep themselves abreast of market developments and updates in relevant regulatory requirements.

The Board via Nomination & Remuneration Committee has undertaken an assessment of training needs of each Director covering areas relating to corporate governance/ risk management, board leadership, banking, finance and insurance; and concluded that all the trainings attended by the Directors during the financial year ended 31 December 2017 are relevant and would serve to enhance their effectiveness in the Board and the Board Committees.

The training programmes and seminars attended by the Directors during the financial year ended 31 December 2017 are, inter-alia, as follows:

Corporate Governance/ Risk Management

- Bursa Malaysia's Sustainability Forum 2017: "The Velocity of Global Change & Sustainability – The New Business Model"
- MII Breakfast Talk - An Overview of the Companies Act 2016 – Key Changes & its Impact
- Breakfast Talk with ACGA: CG Watch 2016 – Ecosystems Matter
- Inaugural Conference for Independent Non-Executive Directors by Hong Kong Monetary Authority
- Audit Committee Institute Breakfast Roundtable 2017
- The Corporate Governance Breakfast Series for Directors – Leading Change @ The Brain

Board Leadership

- Global Business Insights Series: Embracing Paradoxes by Professor Salvatore Cantale
- Talk on "The Global Macroeconomic Outlook - Understanding the Megatrends Post Brexit and Trump"
- Efficient Inefficiency: Making Boards Effective in a Changing World by Professor Sampler
- Boards In The Digital Economy
- 3rd Distinguished Board Leadership Series: Cryptocurrency and Blockchain Technology by Mr Eric E. Vogt
- BDO Tax Seminar 2017

Banking, Finance & Insurance

- PIAM – CEO's Industry Briefing and Networking Lunch
- Focus Group Session on Insurance and Takaful Businesses – Discussion in Preparation for Dialogue with Bank Negara Malaysia's Senior Management
- Fintech: Opportunities for the Financial Services Industry in Malaysia
- PIAM CEO's Industry Networking Cocktail
- UIB's 20th Anniversary Celebrations & Annual Market Seminar
- Capital Market Director Programme for Equities and Futures Broking (Modules 1, 2A, 3 & 4)
- Capital Market Director Programme for Fund Management (Modules 1, 2B, 3 & 4)

CORPORATE GOVERNANCE OVERVIEW STATEMENT

BOARD COMMITTEES

The Board has established several Board Committees whose compositions and terms of reference are in accordance with Bursa Securities' Main Market LR and the best practices prescribed by MCGG.

The functions and terms of reference of the Board Committees as well as authority delegated by the Board to these Committees are clearly defined by the Board.

The Board Committees are as follows:

- Audit Committee
- Nomination & Remuneration Committee
- Investment Committee
- Risk Management Committee

The composition of the Board Committees and the attendance of members at Board Committees meetings held in year 2017 are as follows:

Audit Committee

Name of Committee Members	Scheduled Meetings	Attendance
Lee Chin Guan – Chairman (Independent Non-Executive Director)	5	5
Tee Choon Yeow (Independent Non-Executive Director)	5	5
Quah Poh Keat (Independent Non-Executive Director)	5	5
Chan Kwai Hoe (Independent Non-Executive Director)	5	5

Nominating Committee (dissolved on 25 October 2017)

Name of Committee Members	Scheduled Meetings	Attendance
Tee Choon Yeow – Chairman (Independent Non-Executive Director)	1	1
Quah Poh Keat (Independent Non-Executive Director)	1	1
Chan Kwai Hoe (Independent Non-Executive Director)	1	1

Remuneration Committee (dissolved on 25 October 2017)

Name of Committee Members	Scheduled Meetings	Attendance
Tee Choon Yeow – Chairman (Independent Non-Executive Director)	1	1
Quah Poh Keat (Independent Non-Executive Director)	1	1

Nomination & Remuneration Committee (established on 25 October 2017)

Name of Committee Members	Scheduled Meetings	Attendance
Tee Choon Yeow – Chairman (Independent Non-Executive Director)	1	1
Lee Chin Guan (Independent Non-Executive Director)	1	1
Quah Poh Keat (Independent Non-Executive Director)	1	1
Chan Kwai Hoe (Independent Non-Executive Director)	1	1

Investment Committee

Name of Committee Members	Scheduled Meetings	Attendance
Tan Sri Dato' Sri Dr. Teh Hong Piow – Chairman (Non-Independent Non-Executive Director)	9	9
Tan Kok Guan (Chief Executive Officer/ Executive Director)	9	9
Kong Thian Mee (Company Secretary)	9	9

Risk Management Committee

Name of Committee Members	Scheduled Meetings	Attendance
Tee Choon Yeow – Chairman (Independent Non-Executive Director)	4	4
Lee Chin Guan (Independent Non-Executive Director)	4	4
Quah Poh Keat (Independent Non-Executive Director)	4	4
Chan Kwai Hoe (Independent Non-Executive Director)	4	4

i. Audit Committee

The summary of terms of reference of the Audit Committee on functions to be discharged by the Audit Committee is set out as below:

- Review the following and report the same to the Board:
 - (a) with the external auditor, the audit plan;
 - (b) with the external auditor, his evaluation of the system of internal controls;
 - (c) with the external auditor, his audit report;
 - (d) the assistance given by the employees of the Company to the external auditor;
 - (e) the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - (f) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
 - (g) the quarterly results and year-end financial statements, before the approval by the Board, focusing particularly on:
 - (1) changes in or implementation of major accounting policy changes;

(2) significant matters highlighted including financial reporting issues, significant judgments made by Management, significant and unusual events or transactions, and how these matters are addressed; and

(3) compliance with accounting standards and other legal requirements;

- (h) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (i) any letter of resignation from the external auditors of the Company; and
- (j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for reappointment;

- Recommend the nomination of a person or persons as external auditors; and
- Review the Management Discussion & Analysis and report to the Board.

The terms of reference of the Audit Committee is published in the Group's website.

The Audit Committee meets not less than 4 times a year.

ii. Nomination & Remuneration Committee

The terms of reference of the Nomination & Remuneration Committee are as follows:

- To establish the minimum requirements on the skills, knowledge, expertise, experience, qualifications and other core competencies of a Director and of the CEO.
- To review and recommend to the Board the overall composition of the Board and Board Committees based on objective criteria, merit and with due regard of the appropriate size, diversity, required mix of skills, experience, age, cultural background, gender, core competencies, and adequacy of balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review.
- To assess and recommend the nominees for appointment of Director, the members of Board Committees, as well as nominees for the position of CEO and Company Secretary.

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- To carry out annual assessment on the effectiveness and contribution of the Board as a whole, Board Committees and each director, and performance of the CEO and Company Secretary.
- To assess the Directors, CEO, Company Secretary and Other Key Responsible Persons on an annual basis to ensure that they fulfil fit and proper criteria as stated in the Company's Policy and Procedure on Fit and Proper for Key Responsible Persons and Company Secretary and that they comply with the relevant statutory and regulatory requirements.
- To review the succession plans for the approval of the Board to promote Board renewal and filling in of the vacancies.
- To ensure that all directors undergo the appropriate induction programmes and receive continuous training.
- To deliberate the appointment, succession planning and performance evaluation of CEO, Company Secretary and Other Key Responsible Persons, and recommend to the Board for approval.
- To recommend to the Board on removal of a Director/ CEO/ Company Secretary/ Other Key Responsible Person if he is ineffective, errant or negligent in discharging his responsibilities.
- To facilitate achievement of Board Diversity Policy.
- To carry out the annual assessments on the independence of the Independent Directors as per the relevant statutory and regulatory requirements.
- To review the term of office and performance of the Audit Committee and each of its members annually in order to determine whether the Audit Committee and its members have carried out their duties in accordance with their terms of reference.
- To review and deliberate on the remunerations for Directors, CEO, Company Secretary and Other Key Responsible Persons to commensurate with their performance and contributions to the Company and recommend to the Board for approval.

The terms of reference of the Nomination & Remuneration Committee is published in the Group's website.

The Nomination & Remuneration Committee had undertaken the following responsibilities in accordance with its terms of reference during the year under review:

- Facilitate annual assessment and review the performance of individual Directors, effectiveness of the Board as a whole and various Board Committees and satisfied that the individual directors, the Board and the various Board Committees have discharged their duties effectively according to the Board Charter and their respective terms of reference.
- Facilitate the Board on the annual review of the overall composition of the Board and Board Committees and satisfied that the Board is optimum and that there is appropriate mix of age, gender, knowledge, skills, attributes and core competencies in the Board's composition.
- Conduct assessment on Directors who are subject to re-election pursuant to Companies Act, 2016 and recommend to the Board for approval.
- Perform assessment on Directors, CEO, Other Key Responsible Persons and Company Secretary to ensure that they fulfilled fit and proper requirements as stated in the Policy and Procedure on Fit and Proper.
- Note the annual declaration on fitness and propriety by the Directors.
- Conduct annual assessment on Independent Directors for recommendation to the Board.
- Assist the Board in assessing the training needs of the Directors and review the trainings attended by the Directors during the year.
- Review the term of office and performance of the Audit Committee and each of its members and recommend to the Board for re-appointment in year 2018.
- Review and recommend the proposed remuneration for Directors, Key Responsible Persons and Company Secretary to the Board for approval.

The Nomination & Remuneration Committee meets as and when required, and at a minimum of once a year.

iii. Investment Committee

- To develop a sound investment policy and strategy that supports the long-term growth objectives of the Company.
- To review and monitor the investment portfolios, policies, guidelines and risk limit of the Company and recommend to the Board the Company's overall investment policy and strategy.
- To review the investment policy and guidelines at least once every three years, or more frequently if determined necessary by the Investment Committee.

The Investment Committee shall meet at least quarterly or more frequently as circumstances require.

iv. Risk Management Committee

- To review and recommend risk management strategies, policies and risk tolerance for the Board's approval.
- To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these risks are operating effectively.
- To ensure adequate infrastructure, resources and systems are in place for effective risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Group's risk taking activities.
- To review the Management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
- To perform any other functions in relation to the risk management as may be agreed by the Risk Management Committee and the Board.

The Risk Management Committee meets at least twice a year.

robust performance management system underpinned by the fundamentals of sound risk management, ethics and corporate responsibility. The policy will be reviewed every five (5) years.

The said policy applies to all levels and segments of employees within the Group including the Senior Management, business development, technical, control and support employees.

PRINCIPLES

Business Focused

Remunerations must be relevant and aligned towards the achievement of the Group's business results. There must be no conflict of interest. Remunerations should drive employees' diligence, dedication and competency level towards successful implementation of the Group's goals and strategies.

Prudent

The remuneration structure and quantum must reinforce the importance of sustainability, encourage ethical behaviours and sound risk management, as opposed to short-term view on remuneration without consideration of consequences.

Informed

The performance assessor must have adequate quantitative and qualitative measurements of performance before any recommendation on remuneration is made. The assessments upon which remunerations are recommended must be practicable, measureable and objective.

Fair

Total remuneration packages must take into account of market environment factors including the dynamics and scale of the Group's business, its financial position and the market condition, in addition to individual merits. There must be no discrimination, biased treatment or any form of exploitation. Proper, fair and logical justification must ensue.

Transparent

There must be clear and timely communication of remuneration linked to the specified job requirements. Employees should understand the expectations set out and seek for clarification where necessary.

REMUNERATION POLICY FOR EMPLOYEES

The Remuneration Policy for Employees shall enable the furtherance of the Group's vision and missions. Remuneration to the employees of the Group shall reward and be used to align individual performances with the Group's short and long term goals. Employee remunerations shall be supported by a

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Details of the remuneration of the top 5 Senior Management (including salary, bonus, benefits in-kind and other emoluments) in each successive band of RM50,000 during the financial year 2017, are as follows:

Range of Remuneration (RM)	Name of Top 5 Senior Management
550,001 – 600,000	Mr. Harry Lee Chee Hoong – General Manager, Accounts & Finance
600,001 – 650,000	Mr. Yow Kai Fook – Senior General Manager, Business Development (Agency & Financial Institution)
1,050,001 – 1,100,000	Mr. Chuang Chee Hing – Chief Operating Officer, Lonpac Insurance Bhd
1,350,000 – 1,400,000	Mr. Looi Kong Meng – Chief Executive Officer, Lonpac Insurance Bhd
2,500,001 – 2,550,000	Mr. Tan Kok Guan – Executive Director/ Chief Executive Officer, LPI Capital Bhd

MANAGEMENT COMMITTEES

The Board has also established various Management Committees whose functions and terms of reference as well as authority are clearly defined and are set up to assist the Board in the running of the Group.

The Management Committees are as follows:

- Credit Control Committee
- Information Technology Steering Committee
- Systems and Methods Committee
- Business Resumption Continuity Plan Committee
- Corporate Social Responsibility Committee
- Occupational Safety and Health Committee
- Reinsurance Security Committee
- Business Process Management Steering Committee
- Sustainability Committee
- Group Human Resource Committee
- Motor Detariffication Working Committee
- Fire Detariffication Working Committee

The terms of reference and frequency of meetings for the Management Committees are as follows:

i. Credit Control Committee

- To maximise the conversion of accounts receivables into cash flow and minimise bad debts written off whenever possible.
- To ensure timely collection of outstanding debts, identify problems (e.g. short payment, cancellation, unidentified items) and resolve them in a timely manner.

The Credit Control Committee meets monthly.

ii. Information Technology Steering Committee

- Ensure the establishment of effective computerisation plans for the Group in line with the overall corporate strategic plan and business objectives.
- Overall control of the implementation of the plans by monitoring and reviewing its performance and progress.
- Setting budgets within which computerisation objectives should be achieved and authorising any expenditure above pre-defined limits.
- To establish objectives, policies and strategies for computerisation in the Group.
- To develop long-term strategic plans for computerisation of the Group.
- To establish a detailed annual Information Technology (“IT”) Plan.
- To establish standards for:
 - Hardware/ Software Acquisition;
 - Systems Development Lifecycle and Programme Change Operations; and
 - Computer Security.
- To consider software, hardware acquisitions and all items related to computerisation.
- To monitor and review progress of ongoing projects and the performance monitoring will be geared to the strategic plans, action plans and budgets.
- To review and approve new IT Project proposals.

The Information Technology Steering Committee holds a minimum of 4 meetings a year.

iii. Systems and Methods Committee

- To provide online insurance services and an alternative communications channel to the agents, policyholders and prospective customers in a secured and user-friendly environment.
- To review and furnish recommendations for streamlining of workflow and improving efficiency and increasing E-Enablement of processes and procedures that involves E-System enhancement resulting in reduced costs and improved efficiency.

The Systems and Methods Committee meets once in every 2 months.

iv. Business Resumption Continuity Plan ("BRCP") Committee

- To prepare a BRCP to ensure that the Group suffers no material interruption to its systems, processes or operations, upon the occurrence of disruptive events.

The BRCP Committee meets as and when required.

v. Corporate Social Responsibility ("CSR") Committee

- To carry out Corporate Responsibility ("CR") activities in line with the CR Vision.

The CSR Committee meets at least twice a year.

vi. Occupational Safety and Health ("OSH") Committee

- To review the measures taken to ensure the safety and health of persons at the place of work.
- To investigate any matter at the place of work:
 - which a member of the OSH Committee or a person employed thereat considers as not safe or is a risk to health; and
 - which has been brought to the attention of the employer.
- Attempts to resolve any matter referred to in the above investigation, and if unable to do so, requests the Management to undertake an inspection of the place of work for that purpose.

The OSH Committee meets quarterly.

vii. Reinsurance Security Committee

- To review the financial strength security of the reinsurer.
- To establish Lonpac's Approved Panel of Reinsurers.

The Reinsurance Security Committee meets at least twice a year.

viii. Business Process Management ("BPM") Steering Committee

- To leverage on emerging technology to develop a flexible, agile and robust business model to prepare for future changes and eventual market liberalisation.
- To streamline business processes for improved visibility and efficiency in workflow processes/ operations.
- To ensure the provision of speedy, quality and consistent services.

The BPM Steering Committee meets as and when required.

ix. Sustainability Committee

- Developing the sustainability vision, strategy and linkage to long-term business strategies.
- Advising the Board on strategies in the area of sustainability and seeking Board endorsement on sustainability matters.
- Identifying sustainability risks and opportunities.
- Originating policy and initiatives to manage sustainability risks and opportunities.
- Overseeing the implementation of policies and initiatives including setting targets and Key Performance Indexes for initiatives, assessing effectiveness etc.
- Identifying and implementing the stakeholder engagement process.

The Sustainability Committee meets at least twice a year.

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x. *Group Human Resource Committee*

- Formulates human resource policies and practices for the Group.
- Deliberates and decides on human resource operational issues which do not fall within the ambit of authorised individual personnel.

The Group Human Resource Committee meets once every quarterly.

xi. *Motor Detariffication Working Committee*

- To prepare Lonpac moving forward into the motor detariffed market.
- To help chart Lonpac's strategy & direction in a detariffed market.

The Motor Detariffication Working Committee meets as and when required.

xii. *Fire Detariffication Working Committee*

- To develop new products for fire class in line with the phased liberalisation of Fire Tariff.

The Fire Detariffication Working Committee meets as and when required.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Directors and Officers of the Group are indemnified under a Directors' and Officers' Liability Insurance against any liability incurred by them in the discharge of their duties while holding office as Directors and Officers.

ACCOUNTABILITY AND AUDIT

I FINANCIAL REPORTING

The Board recognises the responsibility in ensuring that accounting records are properly kept and that the financial statements are prepared in accordance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act 2016, the FSA and the directives from BNM.

Early announcements on the quarterly results and issuance of annual report to Bursa Securities reflect the Board's commitment to provide timely, transparent and up-to-date assessments on the Group's performance and prospects.

The Board, assisted by the Audit Committee, oversees the financial reporting processes and the quality of the financial reporting by the LPI Group. The Audit Committee reviews and monitors the accuracy and integrity of the Group's annual and quarterly financial statements. The Audit Committee also assists the Board in reviewing the appropriateness of the accounting policies applied by the Group as well as the changes to these policies.

The Statement of Responsibility by Directors in respect of the preparation of the annual audited financial statements of LPI and LPI Group is presented on page 145.

II RELATED PARTY TRANSACTIONS

The Internal Audit Department ("IAD") reviews the nature of related party transactions within the Group to ascertain any conflict of interest situations that would raise questions on management integrity. The results of this annual review is tabled at the Audit Committee meeting and thereafter reported to the Board.

Details of these related party transactions are disclosed in the Notes to the Financial Statements on pages 240 to 242 of this Annual Report.

III INTERNAL CONTROLS

The Board has the overall responsibility for maintaining a system of internal controls that provides reasonable assurance to the relevant stakeholders of the ability of the Group to maintain operational effectiveness and efficiency, to ensure reliability of financial reporting, compliance with applicable laws and regulations as well as the adherence with internal procedures and guidelines.

The Group has established a system of internal controls, which cover all levels of personnel and business processes, to safeguard the Group's assets and shareholders' interests. Given the nature, size and complexity of the Group's business operations, the Group is required to accept and manage varying levels of operational, financial, business, compliance or other insurance risks, which may give rise to unanticipated or unavoidable losses. LPI Group's systems of internal controls are designed to provide reasonable but not absolute assurance against the risk of significant adverse event which may affect the operations or financial stability of the Group.

During the year, the Risk Management Committee ensures that there exist a sound control environment within the Group with clear identification of responsibilities for managing and controlling risks assigned respectively to relevant business units, the risk management and internal control functions. The effectiveness of the system of internal controls of the Group is reviewed regularly by the Audit Committee. The review covers the financial, operational and compliance controls as well as the effectiveness of the risk management functions. The IAD checks for compliance with policies and standards and the effectiveness of internal control structures across the LPI Group.

The Statement on Risk Management and Internal Control furnished on pages 82 to 84 of this Annual Report provides an overview of the state of internal controls within the Group.

IV AUDIT COMMITTEE

The Group's financial reporting and internal control system is reviewed by the Audit Committee, which comprises 4 Independent Non-Executive Directors.

The composition, attendance of meetings and summary of the activities of the Audit Committee during the financial year are disclosed in the Audit Committee Report on pages 85 to 88 of this Annual Report. The activities of the Audit Committee are governed by the terms of reference that is approved by the Board.

The Audit Committee meets no fewer than 4 times a year. During the financial year ended 31 December 2017, a total of 5 Audit Committee meetings were held.

The Audit Committee meeting is always held before the Board's meeting. This is to ensure that all critical issues highlighted can be brought to the attention of the Board on a timely basis. The minutes of the Audit Committee meetings are tabled at the Board for noting and for action by the Board where appropriate.

The relevant heads of department in Head Office are invited to attend the Audit Committee meetings when deemed necessary by the Audit Committee for the purpose of briefing the Audit Committee on the activities involving their areas of responsibilities.

The activities carried out by the Audit Committee during the year are set out in the Audit Committee Report on pages 86 to 88 of this Annual Report.

V WHISTLEBLOWING POLICY

The Board is committed to maintaining the highest possible standards of ethical and legal conduct within the Group. In line with this commitment and in order to enhance good governance and transparency, a Whistleblowing Policy was adopted with the aim to provide an avenue for raising concerns related to possible improprieties in matters of financial reporting, compliance and other malpractices at the earliest opportunity, in an appropriate manner and without fear of retaliation.

The policy addresses the following areas:

- Policy statement
- Coverage statement
- Scope of policy
- Safeguards
- Disclosure procedure

The policy provides a transparent and confidential avenue for stakeholders to raise issues that include:

- Financial malpractice or impropriety or fraud;
- Failure to comply with legal and regulatory obligations;
- Danger to individual health and safety or to the environment and the cover-up of any of these in the workplace;
- Negligence, criminal activity, breach of contract and law;
- Miscarriage of justice;
- Improper conduct or unethical behaviour; or
- Concealment of any or a combination of the above.

Confidentiality and anonymity are offered to stakeholders who disclose their concerns in good faith and in doing so, had followed the appropriate disclosure procedures accordingly. In view of the seriousness an allegation can be, the policy sets a clear procedural guide for stakeholders to follow in raising their concerns. This will ensure that issues could be addressed to the appropriate person and proper course of actions could be taken. Concerns that are expressed anonymously although less credible, will not be disregarded either and will be acted on accordingly.

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The policy also provides the contact details of the Audit Committee Chairman being the Independent Director and the Group Company Secretary, should stakeholders be in doubt of the Management's independence and objectivity on the concerns raised. Each allegation will be dealt with fairly and equitably.

Actions will be taken based on the nature of the allegation and may be resolved by agreed action. The Audit Committee Chairman or the Group Company Secretary may initiate the formation of an Investigation Committee consisting of persons from the Senior Management who are independent of the allegation, where deemed necessary.

The establishment of the Whistleblowing Policy within the Group is a clear signal to the public, stakeholders and regulators about the attitude i.e. "tone at the top" of the Board and Management towards fraud and illegal acts.

VI RELATIONSHIP WITH EXTERNAL AUDITORS

The Audit Committee meets with the Group's external auditors to review the scope and adequacy of the audit process, the annual financial statements and their audit findings. The Audit Committee also meets with the external auditors without the presence of any executive Board Members and management staff annually and upon request of the external auditors. In addition, the external auditors are invited to attend the AGM of LPI and are available to answer shareholders' questions relating to conduct of the statutory audit and the preparation and contents of their audit report.

The services provided by the external auditors include statutory audits and non-audit services. The terms of engagement for the services rendered by the external auditors are reviewed by the Audit Committee and approved by the Board. The Audit Committee also reviews the proposed fees for non-audit services and subsequently recommends to the Board for approval. In their review, the Audit Committee ensures that the independence and objectivity of the external auditors are not compromised. The Audit Committee's annual assessment to review and monitor the suitability and independence of the external auditors is guided by a Framework on the Appointment/ Re-appointment of External Auditors ("Framework") approved by the Board.

During the financial year under review, the Board, having considered the recommendation by the Audit Committee, was satisfied that the external auditors has met the criteria as set out in the Framework and agreed that the re-appointment of the external auditors for the year 2017 be recommended to the shareholders for approval at the AGM.

The details of the statutory audit, audit-related and non-audit fees paid/ payable in 2017 to the external auditors and its affiliates are set out below:

RM'000	Company	Group
Fees paid/ payable to Messrs KPMG PLT ("KPMG") and its affiliates		
• Audit services		
– KPMG	90	392
– Overseas affiliates of KPMG	-	376
• Non-audit services		
– KPMG*	19	149
– Local affiliates of KPMG**	7	32
– Overseas affiliates of KPMG***	-	118
Total	116	1,067

* The non-audit services fees paid/ payable to KPMG were for the interim review of the subsidiary company for 5 months ended 31 May 2017, review of Statement on Risk Management and Internal Control, review of implementation of MFRS 9 and other services. The provision of these services by the external auditors to LPI Group were cost effective and efficient due to their knowledge and understanding of the operations of the Group, and did not compromise their independence and objectivity.

** The non-audit services fees paid/ payable to local affiliates of KPMG were for advice on taxation matters and for preparation, review and submission of tax returns.

*** The non-audit services fees paid/ payable to overseas affiliates of KPMG were for review of Goods and Services Tax audit, review of implementation of MFRS 9, advice on taxation matters and for preparation, review and submission of tax returns.

VII INTERNAL AUDIT

The Group has an established IAD which assists the Audit Committee in the discharge of its duties and responsibilities. There are 21 internal auditors with relevant qualifications and experience in the IAD. The role of IAD is to provide independent and objective reports on the organisation's management, records, accounting policies and controls to the Board. The internal auditors are free from any relationships or conflict of interest or undue influence of others to override professional and business judgment, which could impair their objectivity and independence. The independence of the internal audit function is derived from its direct reporting and unencumbered access to the Audit Committee.

The Chief Internal Auditor ("CIA") reports directly and functionally to the Audit Committee and ultimately to the Board, and administratively to the Chief Executive Officer of the Company. The CIA, Ms. Irene Hwang Siew Ling, is a holder of a Bachelor's Degree with Honours in Accounting from the University of Malaya. She is a Chartered Accountant of the Malaysian Institute of Accountants and a member of the Malaysian Institute of Certified Public Accountants. She is also a Chartered Member of The Institute of Internal Auditors Malaysia.

The internal audits include evaluation of the processes where significant risks are identified, assessed and managed. Such audits also ensure that instituted controls are appropriate, effectively applied and achieve acceptable risk exposures consistent with the Group's Risk Management and Internal Control Framework.

The internal audit function is governed by an Internal Audit Charter that was approved by the Board. The charter sets the objectives, authority and scopes of the internal audit function, which are in line with the Guidelines on Internal Audit Function of Licensed Institutions issued by BNM. During the year, the internal audit function is carried out in accordance with the International Standards for the Professional Practice of Internal Auditing.

A statement on Internal Audit Function is presented in the Audit Committee Report on pages 88 to 89 of this Annual Report.

EFFECTIVE COMMUNICATIONS WITH SHAREHOLDERS

Transparency and accountability to all stakeholders are the key elements of good corporate governance. The fundamental objectives of transparency and accountability are the communication of clear, relevant and comprehensive information that is timely and readily accessible by all stakeholders. In fulfilling its corporate governance obligations, LPI Group maintains a high level of disclosure and extensive communication with its stakeholders by providing clear, comprehensive and timely information through a number of readily accessible channels. The provision of timely information is principally important to the shareholders and investors for informed investment decision making particularly in periods of financial turbulence and extreme volatility in the marketplace.

LPI's Annual Report remains a key channel of communication with the Group's stakeholders. The contents of the annual report of LPI met Bursa Securities' Main Market LR and other regulatory requirements of annual reports. The extensive information contents and disclosure requirements of Bursa Securities governing listed companies' quarterly results announcements had also enhanced the transparency level of LPI Group.

The Group also provides an executive summary of its annual report, highlighting key financial and corporate information as well as the analysis of the statements of financial position and profit or loss, in order to facilitate shareholders' easy access to such key information. LPI Group disseminates its annual report to its shareholders either in hard copy or in CD ROM media. The same information is also made available to the shareholders electronically as soon as the information is announced or published.

Another important avenue for communication and dialogue with the shareholders is the Company's AGM, which is always held in Kuala Lumpur city centre and not in a remote location. All shareholders are encouraged to attend the Company's AGM and to participate in the proceedings. Shareholders are given both the opportunity and time to raise questions and seek clarification on the agenda items and on the performance of the Company and Group. The Directors, including CEO/ Executive Director are responsible for providing clarification on issues raised by the shareholders at the Company's general meetings and they avail themselves to clarify matters or enquiries from shareholders. Shareholders' suggestions received during AGMs are reviewed and considered for implementation, wherever possible.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

At the AGM, the CEO/ Executive Director of LPI Group presents a brief review of the financial performance of the LPI Group. The turnout of shareholders at LPI's AGM has always been good, a clear indication of the extensive engagement with the shareholders.

LPI issues press releases of its quarterly and annual results announcements. The press release is intended not only to promote the dissemination of the financial results of LPI Group to a wide audience of investors and shareholders but also to keep the investing public and shareholders updated on the Group's business progress and development.

In order to maintain high level of transparency and to promote wider dissemination of corporate and financial disclosures, all information that is made public, such as LPI's Annual Report, the quarterly financial result announcement of LPI Group and other corporate information are available on the Group's website, www.lonpac.com.

Prompt and timeliness in dissemination of information is important for shareholders and investors to make informed investment decisions. Outdated information, although accurate and comprehensive, is less useful for such investment purposes. In this view, LPI Group places high priority in making available and disseminating information as early as possible. The release of periodic financial information such as LPI's Annual Report and the Group's quarterly financial results are generally earliest amongst large listed companies and are always well ahead of the deadlines specified in Bursa Securities' Main Market LR, as reflected in the following tables:

Release of Annual Report

	Date of Issue	No. of Days After End of Year	Deadline Imposed by Bursa Securities
Annual Report 2015	26 February 2016	57	30 April 2016
Annual Report 2016	27 February 2017	58	30 April 2017
Annual Report 2017	26 February 2018	57	30 April 2018

Release of 2017 Quarterly Results

	Date of Issue	No. of Days After End of Quarter	Deadline Imposed by Bursa Securities
1 st Quarter	10 April 2017	10	31 May 2017
2 nd Quarter	10 July 2017	10	31 August 2017
3 rd Quarter	9 October 2017	9	30 November 2017
4 th Quarter	10 January 2018	10	28 February 2018

The Group has consistently managed to achieve such early issuance of its annual reports and releases of the quarterly financial results despite the regulatory requirements, which are needed to be complied with, including a significantly higher level of disclosure of financial information. The prompt and timely availability of information clearly enhances its value to the shareholders and investors and reflects the high standard of transparency within the Group.

INVESTOR RELATIONS

LPI Group's investor relations activities serve as an important communication channel with the shareholders, investors and the investment community, both in Malaysia and internationally.

The Group's investor relations function is undertaken by the very senior level of Management personnel, reflecting the commitment of the Group to maintain strong investor relations as well as providing appropriate and substantive views and information on the Group to investors and equity research analysts.

Investor Relations Activities in 2017

	Total
Meeting with analysts/ fund managers	12

Investor relations activities such as meetings with fund managers and analysts; and interviews by the media are attended by the following designated Senior Management to explain the Group's strategy, performance and major developments:

Primary Contacts for Investor Relations Matters

Tan Kok Guan

Chief Executive Officer/ Executive Director,
LPI Capital Bhd

Contact Details

Telephone number: (03) 2262 8633
Email: kgtan@lonpac.com

Mr. Tan holds a Bachelor's Degree with Honours in Science from the University of London, United Kingdom and a Master's Degree in Business Administration from the University of Hawaii. He is also a Chartered Insurer and Associate Member of the Chartered Insurance Institute in London and an Associate of the Malaysian Insurance Institute in Kuala Lumpur.

Looi Kong Meng

Chief Executive Officer/
Executive Director,
Lonpac Insurance Bhd

Contact Details

Telephone number: (03) 2262 8620
Email: kmlooi@lonpac.com

Mr. Looi is a Chartered Insurer and Associate of the Chartered Insurance Institute; and an Associate of Malaysian Insurance Institute.

The efforts and resources allocated to the investor relations function reflect LPI Group's commitment to achieve a high standard of communication with, and a high level of transparency to its shareholders and the investment community.

Information on the Group's investor relations matters and the primary contacts are also available for the shareholders' and other stakeholders' view in the website at www.lonpac.com.

The Group will adopt integrated reporting based on a globally recognised framework. This framework will then be utilised in the preparation of our Annual Report for the year ending 31 December 2020.

This Corporate Governance Overview Statement is made in accordance with the resolution of the Board dated 10 January 2018.

A copy of the Corporate Governance Report on disclosure on application of each practice in MCCG, can be downloaded in the Company's website, Corporate Governance Section of LPI Capital Bhd, at www.lonpac.com.

ENTERPRISE RISK MANAGEMENT

OVERVIEW

Enterprise risk management is the holistic and structured process, effected top-down, from the board of directors to the management and the employees, across the enterprise, that addresses the uncertainties surrounding potential events that may affect the enterprise by identifying these events and determining appropriate control and monitoring measures. Enterprise risk management aims to align the processes, people, and technology of an enterprise to manage its risks within its risk appetite and tolerance, so that the organisation's value to its stakeholders can be sustained.

Enterprise risk management is an enhancement of the existing risk management practices that include the following key elements:

- (1) Risk management is applied consistently across the whole enterprise;
- (2) Risk management and measurement is integrated into the business processes; and
- (3) Presence of a central risk function.

The benefits of enterprise risk management include the timely reporting and transparency of risks across the whole organisation, increased effectiveness and coordination of risk management activities, and better alignment of its business strategies with its risk appetite and tolerance.

Enterprise risk management minimises losses and unpleasant surprises while enabling a speedier response to secure good opportunities, and the efficient use of capital.

The recognition of the importance of enterprise risk management has been growing steadily over the years. Various stakeholders, such as the regulators and rating agencies, are becoming more interested in a company's risk management practices. The introduction and implementation of Bank Negara Malaysia ("BNM")'s Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers highlights the importance of the role of the board of directors and management, in the assessment of a company's risk profile and the quality of risk management. In Singapore, an insurer shall perform its own risk and solvency assessment ("ORSA"), to assess the adequacy of its risk management. It is paramount that sound capital management is put in place and stress tests are performed and monitored regularly.

The Board of Directors ("Board") recognises the importance of an effective enterprise risk management in order to achieve a sustainable growth in profitability and strong asset quality that in turn will optimise the Group's value to its shareholders. The Board, with the assistance of the Management, has set out the overall approach of the Group's risk management activities.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The risk management infrastructure of the Group sets out clear accountabilities and responsibilities for the risk management process which underlines the principal risk management and control responsibilities:

Approval of risk management policies, risk appetite and risk tolerance	Board of Directors Risk Management Committee ("RMC") at LPI Capital Bhd ("LPI") Board Risk Management and Compliance Committee ("RMCC") at Lonpac Insurance Bhd ("Lonpac") Board	
Implementation of enterprise risk management, independent review and compliance	Dedicated Department Enterprise Risk Management ("ERM") Department	Independent Risk Management and Control Unit - Internal Audit Department ("IAD") - Compliance Department
Implementation, development and giving feedback of risk management policies	Individual Units - Business Development Division - Underwriting Division - Health & Accident Department - Claims Department - Information Technology Department - Accounts & Finance Department	- Human Resource Department - Actuarial Department - Pricing Department - Administration Department - Training Department - Secretariat Department

The Group Risk Management and Internal Control Framework sets out the governing principles for the enterprise risk management and internal control activities of the Group.

The Board is responsible for oversight over the Group's Risk Management and Internal Control Framework, risk appetite/ risk tolerance, capital management framework and risk management policies.

The RMC and RMCC were established by the LPI and Lonpac Board respectively with the responsibility to oversee the overall risks which includes inter-alia reviewing and approving risk management processes, reviewing risk exposure and portfolio composition, and ensuring that infrastructure, resources and systems are put in place for risk management activities for identifying, measuring, monitoring and controlling risks.

The RMCC is supported by the ERM Department, which was established with the responsibility to identify and communicate to the RMCC on critical risks (present and potential) in terms of likelihood of exposures and impact on the Group's business and the management's action plans to manage these risks on a continuing basis.

The independent risk management and control functions under the IAD and Compliance Department provide support to the ERM Department and ensure that the risk management policies are implemented effectively. The IAD performs independent assessments of the adequacy and reliability of the risk management processes and system. The Compliance Department ensures the individual units are in compliance with laws and regulatory guidelines.

The Individual Units are responsible for identifying, mitigating and managing risks within their lines of business and ensuring that their day-to-day business activities are carried out in accordance with established risk policies, procedures and limits.

The risk management policies are subject to periodical reviews to ensure that they remain relevant and effective in managing the associated risks due to changes in the marketplace and regulatory environments.

RISK APPETITE AND RISK TOLERANCE

The 2 main conventional sources of income for the Group is insurance business, which is the core business activity of the Group, while the second source is its investment activities.

The Group places strong emphasis on prudent and profitable underwriting practices in order to achieve a sustainable business. Regular reviews of claims trends and underwriting guidelines are performed to identify good risks. The Group has capped the proportion of certain lines of business over its total portfolio in line with its risk tolerance for overall exposures. The Group has also capped the proportion of Refer Risks over business portfolio to maintain a healthy block of risks.

The investment objective is to prudently maximise the returns on the resources available within the confines of the regulatory requirements. The Group aims to provide a steady stream of income and liquidity while maintaining capital stability by having a balanced book of investments, and paying attention particularly to the relevant risk charges. The Group has capped the proportion of investment in certain categories of assets to avoid unnecessary high risk charges. The Group has also capped the proportion of fixed income investment with lower ratings to ensure a healthy portfolio of investments.

The Group strives to ensure that its reinsurers are financially resilient in order to perform their contractual obligations in a timely manner. The treaty reinsurers are required to maintain a minimum financial strength rating and are assessed annually. The proportion of exposure to reinsurers with lower ratings over total reinsurance exposure is capped to minimise the credit risk.

The Group aspires to maximise the conversion of accounts receivable into cash flow and to minimise the writing off of impaired debts. The Credit Control Committee meets monthly to identify any weak and delinquent accounts for early action, if required.

The Group seeks to hold sufficient provisions for insurance liabilities by reserving for them at the 75% confidence level.

ENTERPRISE RISK MANAGEMENT

RISK ASSESSMENT

The Group has established a structured approach within its risk management and internal control framework which is used to conduct a comprehensive risk assessment of every individual risk identified, with its own unique set of characteristics and operational implications.

Each identified individual risk is assessed on the degree of impact on the business and the risk likelihood and is categorised as follows:

Risk Impact	High	Medium	Low
Risk Likelihood	High	Medium	Low

The Risk Matrix was utilized to depict the impact and the likelihood of each individual risk as it gives a simple visual summary of the materiality of the risks being analyzed. The Risk Matrix helps the Group to determine how best to utilize its resources efficiently to manage its risks on an enterprise level.

The Risk Matrix is shown as below:

Risk Impact	High	Medium Priority	High Priority	High Priority
	Medium	Low Priority	Medium Priority	High Priority
	Low	Low Priority	Low Priority	Medium Priority
		Low	Medium	High
		Risk Likelihood		

High Priority	=	Major Focus
Medium Priority	=	Moderate Focus
Low Priority	=	Peripheral Focus

The risks that fall under the top right corner of the matrix should be given high priority, that is the Company should direct a significant portion of its resources to manage these risks. The risks that fall along the diagonal line from top left corner to bottom right corner are considered as medium priority and are managed accordingly. The risks at the bottom left corner are considered as low priority risks but are still monitored with a peripheral focus.

Following the risk identification and assessment process, appropriate control measures and risk owners are established for each of the key risks identified. The control measures are assessed based on their impacts on the risks ("Loss Reduction Measures, "Loss Prevention Measures") as well as their effectiveness ("Strong", "Good", "Satisfactory") to mitigate the risks.

The Group's internal control activities are reviewed and assessed regularly by the Internal Audit Department. The reviews include an assessment of the effectiveness of the control activities undertaken by the business and functional lines, the effectiveness of management oversight and whether the internal control activities and processes remains comprehensive, robust and have been implemented as intended.

RISK PROFILE

The key areas of risks of the Group are set out below:

SUPPORT DEPARTMENTS

- Underwriting
- Claims
- Accounts & Finance
- Human Resource
- Information Technology
- Compliance
- Actuarial
- Pricing
- Health & Accident
- Administration
- Training
- Secretariat

BUSINESS DEVELOPMENT DEPARTMENTS

- Agency
- Financial Institution
- Broking
- Global Partnership
- Trade Credit
- Digital Strategy
- Reinsurance
- Customer Service
- Branches Strategic Performance
- Branches

FINANCIAL RISKS

Risk of financial losses caused by credit risks, market risks, interest rate risks, foreign currency risks or liquidity risks.

Sub-Risks:

Credit Risk, Market Risk.

Risk Management Approaches:

- Diversification of counterparty exposure to avoid concentration risk ensured together with control and monitoring measures.
- Credit control policies and procedures carried out by Credit Control Unit.
- Investment guidelines to describe the threshold for each type of investments.
- Independent assessment on financial security of the counterparties before entering into an agreement.
- Ensuring sufficient liquidity is maintained so that sufficient funding is available to meet its insurance contract and other obligations.

STRATEGIC RISKS

Risk of financial losses arising from underlying strategies that turns out to be a poor business strategy decision.

Sub-Risks:

Phased Liberalisation Risk, Business Plan Risk, Reinsurance Strategy Risk, Digital Strategy Risk, Information Technology ("IT") Risk, Investment Strategy Risk.

Risk Management Approaches:

- Motor and Fire Detariffication Committees are established to oversee the design and implementation of new motor and fire products.
- Comprehensive research is performed before the launch of new products with frequent monitoring of new business production profit performance.
- Annual review of reinsurance arrangements and the close monitoring of the financial security of the panel of reinsurers.
- The Information Technology Steering Committee ensures the effective planning and direction of IT plans and projects.
- Digital Strategy department is established to diversify the distribution channel and enhance the Group's customer service.
- The Investment team executes Lonpac's investment objectives, which aims to maximise returns consistent within prudent level of risks.

ENTERPRISE RISK MANAGEMENT

SUPPORT DEPARTMENTS

- Underwriting
- Claims
- Accounts & Finance
- Human Resource
- Information Technology
- Compliance
- Actuarial
- Pricing
- Health & Accident
- Administration
- Training
- Secretariat

BUSINESS DEVELOPMENT DEPARTMENTS

- Agency
- Financial Institution
- Broking
- Global Partnership
- Trade Credit
- Digital Strategy
- Reinsurance
- Customer Service
- Branches Strategic Performance
- Branches

INSURANCE RISKS

Risk of financial losses arising from higher than expected claims amount and the inadequacy of insurance liabilities reserves.

Sub-Risks:

Underwriting & Claims Experience Risk.

Risk Management Approaches:

- Peer reviews and ongoing discussion of Group's specific trends, changes in business environment and claims processes.
- Annual review of underwriting guidelines.
- Regular monitoring of claims experience and highlight any adverse claims experience to the management.

OPERATIONAL RISKS

Risk of financial losses arising from inadequate/ failed internal processes, people, system or unexpected external events.

Sub-Risks:

Internal Processes, Internal People, Internal Systems, External Events.

Risk Management Approaches:

- Periodical reviews and monitoring of internal processes are performed to ensure viability and appropriateness with respect to the changing operating environment.
- Structured guidelines, access rights, training and organisation of work with random checks and reviews help control the risks of human errors.
- Regular back-ups, software/ hardware acquisition policies and benchmark tests are utilised to ensure the quality of internal systems.
- The external operating environment is monitored closely and the Business Resumption Continuity Plan is reviewed periodically.

LEGAL AND COMPLIANCE RISKS

Risk of financial losses arising from a breach in the applicable laws and regulations and from the damage to the Group's reputation.

Sub-Risks:

Legal and Compliance Risks.

Risk Management Approaches:

- The various Head of Departments and relevant authorities are promptly notified of any latest published circulars and guidelines. Regular and random checks are performed to ensure compliance to legal standards.

STRESS TESTING

The LPI Group recognises the importance of stress testing as a risk management tool to identify potential threats due to exceptional but adverse plausible events. The Board and Management also view stress testing as an effective risk management tool and have embedded stress testing as part of the Group's management processes.

The stress testing process has been designed to suit the Group's business environment and risk profile, and is commensurate with the nature, complexity and sophistication of its business activities. Adverse scenarios are incorporated into the stress testing exercise and will be continually reviewed with the changing business environment. The stress testing process helps determine the extent by which capital may be eroded from exceptional but adverse plausible events.

The Board and Management participate actively in providing feedback and participating in the discussion on the methodology, assumptions and results of each stress testing exercise.

The Group's stress testing process complies with the Guideline on Stress Testing for Insurers issued by BNM. The results of the stress test are submitted to BNM on a half yearly basis.

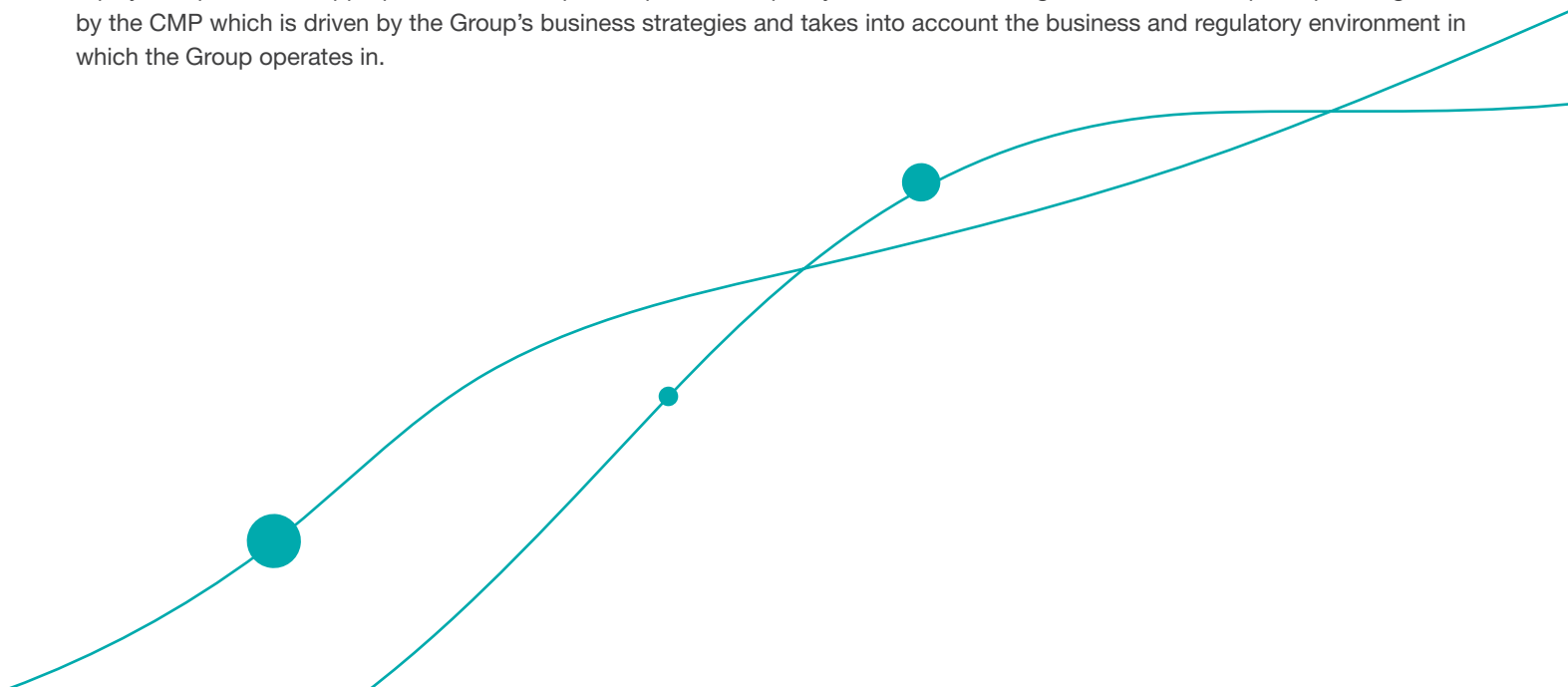
Stress testing of the Singapore business is performed on an annual basis, in compliance with the Insurance (Actuaries) Regulations 2013 prescribed by the Monetary Authority of Singapore.

CAPITAL MANAGEMENT PLAN

The Group has updated its Capital Management Plan ("CMP") in compliance with the Guidelines on ICAAP for Insurers issued by BNM.

The CMP sets out thresholds that act as triggers for actions. The corrective actions for each threshold are stated and take into account how adverse scenarios are likely to affect the Group's risk management activities. The intensity of corrective actions increases with the extent of which threshold level is breached. This ensures that an appropriate level of capital is maintained at all times.

The objective of the CMP is to optimise the efficient and effective use of resources and capital in order to maximise the return on equity and provide an appropriate level of capital to protect the policyholders. The management of the Group's capital is guided by the CMP which is driven by the Group's business strategies and takes into account the business and regulatory environment in which the Group operates in.



ETHICS, INTEGRITY AND TRUST

LPI Capital Bhd (“LPI”) via its wholly-owned subsidiary, Lonpac Insurance Bhd (“Lonpac”), operates in an industry where integrity and trust are of utmost importance. The trust and confidence that customers and the public have in Lonpac are vital to the continued growth and success of the Group. The Group actively strives with enthusiasm to conduct itself with integrity and trustworthiness to develop such trust and confidence in the Group. Measures to safeguard the Group’s integrity and credibility are undertaken to minimise the exposure to reputational risk arising from unethical or fraudulent conduct by the Group’s employees.

The Group recognises that employees play an important role in building a trusted and reputable enterprise in the eyes of the public. The Group has taken, and continues to take proactive initiatives to ensure that employees have shared values and principles, and conduct themselves to the standards that are consistent with the expectations of the customers and the public.

The acceptable conduct expected of employees of the Group is formalised in clearly written codes and policies. This is a critical part of building a culture of trust and integrity in employee conduct and behaviour. Included amongst such codes and policies are the following:

I. POLICY AND PROCEDURE ON FIT AND PROPER FOR KEY RESPONSIBLE PERSONS AND COMPANY SECRETARY

LPI Group has established Policy and Procedure on Fit and Proper for Key Responsible Persons and Company Secretary, which aimed to ensure that the key positions in LPI Group are led by personnel who fulfil the following criteria:

- (a) Probity, Personal Integrity and Reputation – possesses the personal qualities such as honesty, integrity, diligence, independence of mind and fairness;
- (b) Competence and Capability – have the appropriate qualification, training, skills, practical experience and commitment to effectively fulfil the role and responsibilities of the position to carry out his work; and
- (c) Financial Integrity – able to manage his own financial affairs properly and prudently.

2. CODE OF ETHICS

It is the duty of every LPI Group employee to uphold and abide by high standard of professionalism and ethics. The principles set out by the Financial Services Professional Board’s Code of Ethics resemble the values that LPI Group stands for. The Group, therefore adopts these five core ethical principles as its own, which also forms the basis for the Group’s Code of Conduct.

a) Competence

All employees shall develop and maintain the relevant knowledge, skills and behaviour to ensure that their activities are conducted professionally and proficiently. This includes acting with diligence, as well as obtaining and regularly updating the appropriate qualifications, training, expertise and practical experience.

b) Integrity

The Group and all employees shall be honest and open in all their dealings. This includes behaving in an accountable and trustworthy manner, and avoiding any acts that might damage the reputation of, or bring discredit to the Group or the industry at any time.

c) Fairness

The Group and all employees shall act responsibly and embrace a culture of fairness and transparency. This includes treating those with whom they have professional relationships with respect and ensuring that they consider the impact of their decisions and actions towards all stakeholders.

d) Confidentiality

The Group and all employees shall protect the confidentiality and sensitivity of information provided to them. This includes using it for its intended purposes only and not divulging to any unauthorised persons, including third parties, without the necessary consent from those involved unless disclosure is required by law or regulation.

e) Objectivity

The Group and all employees shall not allow any conflict of interest, bias or undue influence of others to override their business and professional judgement. They shall declare to those concerned, all matters that could impair their objectivity.

Persatuan Insurans Am Malaysia (“PIAM”) registered agents who represent Lonpac are bound by written agreement with the company to abide by a code of conduct known as the PIAM General Insurance Business Code of Practice for All Intermediaries Other than Registered Insurance Brokers (“Code”). The Code stipulates minimum standards on the sale, advisory and service conducted by insurance agents.

3. ANTI-FRAUD POLICY

The Group’s General Conduct Policies provide guidance on the specific issues in order for the Group to operate in an orderly manner and to create a fair working environment for all employees. Included in its General Conduct Policies is the Group’s Anti-Fraud Policy which spells out that employees are responsible in preventing and detecting defalcations, misappropriations and other irregularities. Employees are expected to be familiar with the types of improprieties that might occur within their areas of responsibility and be alert to any indication of irregularity. In addition, the Anti-Fraud Policy sets out fraud discovery reporting procedures and warns employees on the disciplinary actions against fraudulent acts.

4. ANTI-MONEY LAUNDERING AND COUNTER FINANCING OF TERRORISM POLICY

Lonpac remains committed to fulfilling its regulatory obligations. Lonpac undertakes so far as is reasonably possible and practicable to safeguard itself from individuals and entities listed under applicable laws and regulations such as the orders issued by the Minister of Home Affairs pursuant to powers conferred under Section 66B and Section 66C of the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001. If a transaction relates to any designated individual or entity, Lonpac will block or reject the transaction and report to the relevant authorities.



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors ("Board") recognises the importance of a sound risk management and internal control framework to safeguard shareholders' investment and assets of LPI Capital Bhd ("LPI") and its wholly-owned subsidiary, Lonpac Insurance Bhd ("Lonpac").

The Board's Statement on Risk Management and Internal Control outlines the nature and scope of risk management and internal control of the Group during the year.

BOARD RESPONSIBILITIES

The Board affirms its overall responsibility for the adequacy and effectiveness of the Group's risk management and internal control framework. This includes reviewing the adequacy and integrity of financial, operational and compliance controls and risk management procedures. In view of the limitations that are inherent in any system of internal controls, the Board ensures that the risk management and internal control framework is designed to manage the Group's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Group. The Board continually reviews the framework in ensuring that this risk management and internal control framework provides a reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

Following the publication of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("Risk Management and Internal Control Guidelines"), the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process which includes enhancing the risk management and internal control framework when there are changes in the business environment or regulatory guidelines, is reviewed by the Board and is guided by the Risk Management and Internal Control Guidelines.

The Board is assisted by the Management in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The Management has given assurance to the Board that the Group's risk management and internal control framework is operating adequately and effectively, in all material aspects, based on the Group's risk management and internal control framework.

The Board is of the view that the risk management and internal control framework in place for the year under review and up to the date of the issuance of the financial statements is adequate and effective to safeguard the shareholders' investment, the interests of customers, regulators and employees, and the Group's assets.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

The key processes that have been established in reviewing the adequacy and effectiveness of the risk management and internal control framework include the following:

Group Risk Management and Internal Control Framework

- The Risk Management Committee ("RMC") and Risk Management and Compliance Committee ("RMCC") were established by the LPI and Lonpac Board respectively with the responsibility to oversee the overall risk management processes by identifying principal business risks and ensuring appropriate implementation of systems to manage these risks.
- The LPI Group Risk Management and Internal Control Framework sets out the governing principles for the enterprise risk management and internal control activities of the Group. The objective of the framework is to provide a comprehensive, systematic, disciplined and proactive process, effected top-down from the Board to the management and the employees across the Group, conforming to the requirements, principles and best practices established by Bank Negara Malaysia and the Malaysian Code on Corporate Governance issued by Securities Commission Malaysia. The framework involves a continual process of identifying, assessing, managing and reporting on the significant strategic, business and process level risks related to the achievement of the Group's business objective, and to maintain an effective internal control environment within the Group. The effectiveness of the framework is assessed at least annually which includes a review of all significant risks by respective risk owners and to assess the overall risk environment of the Group.
- The Enterprise Risk Management ("ERM") Department identifies and communicates to the RMCC on critical risks (present and potential) in terms of likelihood of exposures and impact on the Group's business and the management action plans to manage these risks on a continuing basis. Various heads of business unit departments, who are specialised and experienced in their respective business processes remain available to give advice to the ERM Department on the key risks relevant to their respective operations. The Internal Audit Department ("IAD") and Compliance Department also provide their advice to the ERM Department pertaining to controls and compliance concerns on various risk factors and implementation of risks mitigation measures. The ERM Department actively identifies, assesses and monitors the Group's key business risks.
- Risk Reports were compiled to define a set of risk appetite and risk tolerance approved by the Board. The Risk Reports were established not only for the purpose of complying with the Guidelines on Internal Capital Adequacy Assessment Process ("ICAAP") for Insurers issued by Bank Negara Malaysia ("BNM"), but also for ERM of Lonpac.

Internal Audit Function

- The Internal Audit function is in place to assist the Audit Committee of the Group to discharge its functions effectively. The IAD monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on Head Office departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these Head Office departments and branches. The findings of the internal audits are tabled at the Audit Committee meetings for deliberation and the Audit Committee's expectation on the corrective measures will be communicated to the respective head of departments and branches. The annual Internal Audit Plan is reviewed and approved by the Audit Committee.
- The Audit Committee of the Group reviews any internal control issues identified by the IAD, the external auditors, regulatory authorities and Management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board. Further details of the activities undertaken by the Audit Committee of the Group are set out in the Audit Committee Report.
- Stress tests are performed annually on Lonpac's financial position which commensurate with its risk profile and the business environment. The stress tests are used as a risk management tool to identify potential threats to Lonpac's financial health due to exceptional but plausible adverse events and to determine Lonpac's Individual Target Capital Level. The results in the stress test report are deliberated at the RMCC meetings and thereafter recommended to the Board for approval, before submission to BNM or the Monetary Authority of Singapore for the Singapore branch.
- The IAD reviews the stress test policy to provide an independent assessment in ensuring the quality and effectiveness of the stress test policy as required by BNM. The internal audit report on the review of the stress test policy is presented at the Audit Committee meeting.
- The Group's quarterly financial reports are released to Bursa Malaysia Securities Berhad after being reviewed by the Audit Committee and approved by the Board.
- Management meetings chaired by the Chief Executive Officer of Lonpac are conducted monthly to review financial performance, business development and to deliberate on management and corporate issues.
- A Data Management and Management Information System ("MIS") Framework was formulated and approved by the Board in accordance with the Guidelines on Data Management and MIS Framework issued by BNM. The maintenance of adequate data quality is carried out and internal controls, either in the systems or manually performed will be incorporated to further improve the data quality. All heads of departments determine the materiality level for critical and non-critical data for data accuracy assessment purpose. The assessment of data accuracy is carried out on a yearly basis and the assessment report will be tabled at the RMCC and Board meetings.

Other Key Elements of Risk Management and Internal Control

- There is an organisational structure with formally defined lines of responsibility and delegation of authority to ensure proper identification of accountabilities and segregation of duties.
- Operating policies and procedures, which incorporate regulatory and internal requirements, are prescribed in the form of circulars to line management in all departments and updated as and when there are changes.
- There are operational authority limits imposed on Chief Executive Officer and Management within the Group in respect of day-to-day operations, covering underwriting on accepting risks, claims settlement, investments, acquisition and disposal of assets.
- The treaty reinsurance programme ensures that there is a proper spread of reinsurers. The securities of treaty reinsurers are reviewed on an annual basis by the Reinsurance Security Committee ("RSC") and the RMCC.
- The Management submits annually a business plan and budget with 3 year projections for approval by the Board. The Board reviews monthly management accounts, which are measured against budgets and the previous year's results to gauge performance.
- The Investment Committee is responsible for formulating policies, strategies as well as reviewing matters relating to the investment in shares and private debt securities.
- The Information Technology Steering Committee is chaired by the Chief Executive Officer of Lonpac. The committee is responsible for establishing effective computerisation plans, authorising information technology related expenditure above predefined limits and monitoring the progress of approved projects.
- Internal control requirements are embedded in computerised systems as well.
- The Systems and Methods Committee is chaired by the Chief Executive Officer of Lonpac to oversee the control and efficiency of processes.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- The Credit Control Committee is chaired by the Chief Executive Officer of Lonpac and represented by the Chief Operating Officer, Heads of the Business Development Departments and Accounts & Finance Department. Monthly meeting is conducted with the objective of maximising the conversion of accounts receivables into cash flow and minimising impaired debts written off.
- The Business Resumption Continuity Plan (“BRCP”) Committee is chaired by the Chief Executive Officer of Lonpac. The committee is responsible for preparing a BRCP to ensure that the Group suffers minimum interruption to its systems, processes and operations in the event of any disasters.
- A BRCP manual was formulated to ascertain that the Group suffers no material interruptions to its systems, processes and operations, or material damages to its assets upon the occurrence of any disastrous events. A separate BRCP manual was formulated for the Singapore branch. The BRCP plan for both Malaysian and Singapore operations are tested annually. The BRCP testings are observed by the IAD to provide an independent evaluation of the testing preparation and to highlight any deficiencies noted during the testings. A written assessment report on the BRCP testing is prepared by the IAD for the Audit Committee’s review. The IAD reviews the Post-Test Analysis Reports prepared by the Company and submits their assessment report to BNM as required under the Guidelines on Business Continuity Management (Revised) (“BCM”).
- On an annual basis, the IAD reviews the level of commitment to BCM and overall preparedness with reference to Lonpac’s BCM policies and regulatory requirements. Gaps identified will be documented in the audit report to the Audit Committee together with the action plans for further improvement by the respective business functions. An executive summary of the audit report, which includes comments from the Audit Committee, will be submitted to BNM as required under the Guidelines on BCM.
- The Business Process Management Steering Committee is chaired by the Chief Executive Officer of Lonpac. The committee’s responsibilities are:
 - to leverage on emerging technology to develop a flexible, agile and robust business model to prepare for future changes and eventual market liberalisation;
 - to streamline business processes for improved visibility and efficiency in workflow processes/operations; and
 - to ensure the provision of speedy, quality and consistent services.
- Motor Detariffication Working Committee and Fire Detariffication Working Committee are established to prepare Lonpac for the forthcoming phased liberalisation of Motor and Fire Tariffs in Malaysia.
- Training and development programmes are conducted to enhance staff competencies and maintain a risk control conscious culture.
- Training sessions for agents are conducted to enhance their competencies and technical knowledge for better risk management in developing agency networking.
- There are proper guidelines within the Group for hiring and termination of staff. Annual performance appraisals are in place to ensure that the staff are competent in carrying out their duties and responsibilities.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide (“RPG”) 5 (Revised), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants (“MIA”) for inclusion in the annual report of the Group for the year ended 31 December 2017, and reported to the Board that nothing has come to their attention that causes them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

- a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- b) is factually inaccurate.

RPG 5 (Revised) does not require the external auditors to consider whether the Directors’ Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group’s risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.



AUDIT COMMITTEE REPORT

CHAIRMAN

1. **Independent Non-Executive Director**
Lee Chin Guan
 B.Sc. (Hons), BCL (Oxon), LLM (Cantab),
 JD (Chicago-Kent), Barrister-at-Law (Middle
 Temple)
*(Appointed as Chairman with effect from
 25 October 2017)*

MEMBERS

2. **Independent Non-Executive Director**
Tee Choon Yeow
 B.Com., CA (NZ), CA (M'sia), FCPA (Aust)
(Re-designated as Member with effect from 25 October 2017)
3. **Independent Non-Executive Director**
Quah Poh Keat
 FCCA (UK), CA (M'sia), CPA (M'sia),
 ACMA (UK), Fellow MIT (M'sia)
4. **Independent Non-Executive Director**
Chan Kwai Hoe
 BEc (Hons) Analytical Econs

AUDIT COMMITTEE REPORT

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is established by the Board of Directors ("Board") and comprises four independent non-executive directors. The Chairman of the Audit Committee is appointed by the Board and is an independent non-executive director and also not the Chairman of the Board. The members of the Audit Committee have the relevant accounting or related experience and expertise in the financial services industry.

ATTENDANCE OF MEETINGS

The details of attendance of each member at the Audit Committee meetings held during 2017 are as follows:

Name of Audit Committee Member	Attendance at Audit Committee Meetings
Lee Chin Guan Chairman/ Independent Non-Executive Director <i>(Appointed as Chairman with effect from 25 October 2017)</i>	5/5
Tee Choon Yeow Member/ Independent Non-Executive Director <i>(Re-designated as Member with effect from 25 October 2017)</i>	5/5
Quah Poh Keat Member/ Independent Non-Executive Director	5/5
Chan Kwai Hoe Member/ Independent Non-Executive Director	5/5

The Audit Committee met five times during the year.

The Audit Committee meetings were attended by the Internal Auditors, the Chief Executive Officer and certain members of senior management. The role of the Audit Committee is to ensure that recommendations made by both internal and external auditors, as well as by regulators, are addressed and dealt with in a timely manner.

In performing its function, the Audit Committee had met the external auditors without the presence of any executive member of the Board and management staff on 9 January 2017.

The details of the terms of reference of the Audit Committee are available at www.lonpac.com.

SUMMARY OF ACTIVITIES

During the year, the Audit Committee carried out the following activities:

1. Financial Results

- Reviewed the annual audited financial statements of the Company/ Group and quarterly results of the Group, and thereafter, submitted them to the Board for approval.
- Reviewed the Statement on Risk Management and Internal Control pursuant to Paragraph 15.26(b) of Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements for Board's approval.
- Reviewed the Press Release Statements and recommended them to the Board for approval.
- Reviewed the documents for submission to Bank Negara Malaysia ("BNM") pursuant to Section 51(1) of the Financial Services Act 2013 on the declaration and payment of dividend, and thereafter, recommended to the Board for approval.

In reviewing the annual audited financial statements, the Audit Committee discussed with the Management and the external auditors the accounting principles and standards that were applied and their opinion on the items that may affect the financial statements.

2. Internal Audit

- Reviewed the results of the Group's internal audit procedures and the adequacy of actions taken by the Management based on the internal audit reports. Where appropriate, the Audit Committee has directed the Management to rectify and improve controls and operational workflow based on internal auditors' recommendations.
- Reviewed the internal audit reports arising from the follow-up reviews of each audit to ensure that all control lapses have been addressed.
- Reviewed the Internal Audit Reports on the Observation of Business Continuity Plan/ Disaster Recovery Plan ("BCP/ DRP") testings pursuant to the Guidelines on Business Continuity Management (Revised) ("BCM") issued by BNM.
- Reviewed the Internal Audit Reports on the Review of BCP/ DRP Post-Test Analysis Reports pursuant to the Guidelines on BCM.
- Reviewed the level of commitment to BCM and the overall preparedness against its BCM policies and regulatory requirements in accordance with the Guidelines on BCM.
- Reviewed the Internal Audit Report on Review of Stress Test Policy pursuant to the Policy Document on Stress Testing issued by BNM.
- Discussed the 2016 Supervisory Letter from BNM and the draft reply letter to BNM pertaining to the actions taken or to be taken, planned together with the respective timelines.
- Reviewed the Independent Validation Report on Differential Levy System ("DLS") Quantitative Information and Return on Calculation of Levies ("RCL") to Perbadanan Insurans Deposit Malaysia ("PIDM") for the financial year ended 31 December 2016.
- Reviewed the Internal Audit Department's comments and recommendations on the risk management and capital management processes relating to Internal Capital Adequacy Assessment Process ("ICAAP"), in accordance with the Guidelines on ICAAP for Insurers issued by BNM.
- Reviewed the Report on Actuarial Valuation Process.

- Reviewed the revised Internal Audit Charter and recommended to the Board for approval.
- Approved the Internal Audit Plan 2018.
- Noted the Conclusion Report on Audit Findings.
- Noted the resignation of Internal Audit staff.

The Audit Committee acknowledges that the internal control system of LPI Group, which was enforced throughout the financial year up to the date of this report, provided reasonable although not absolute assurance against material financial misstatements or loss. The internal controls were also deemed sufficient in ensuring the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practices, and the identification and containment of financial risk.

The Audit Committee arrived at these conclusions as there is no evidence that there has been any shortcomings in the aforementioned processes. Nevertheless, the Audit Committee notes that the internal control system cannot provide absolute assurance against the occurrence of material errors, poor judgement in decision making, human error, losses, fraud or other irregularities.

3. External Audit

- Reviewed the following with the external auditors:
 - their audit plan, audit strategy and scope of audits of the Company/ Group for the year;
 - their evaluation on the system of internal controls of the Company/ Group;
 - the results of the annual audit, management letter for insurance subsidiary including the Management's response to the findings of the external auditors and also the auditors' report to the shareholders.
- Discussed the letters of engagement from the external auditors and recommended them to the Board for approval.
- Reviewed the suitability, objectivity and independence of the external auditors and recommended to the Board for re-appointment and the audit fee thereof and also approved the provision of non-audit services by the external auditors.

AUDIT COMMITTEE REPORT

- Reviewed the draft Limited Assurance Report of the external auditors to the Board on the Statement on Risk Management and Internal Control.
- Reviewed the draft representation letters to external auditors.
- Met with the external auditors without any executive Board members and management staff present.

4. Related Party Transactions

- The Audit Committee reviewed the related party transactions and possible conflict of interest situations that may arise within LPI Group in accordance with the Corporate Governance Guide: Towards Boardroom Excellence (2nd Edition) issued by Bursa Malaysia Berhad, and thereafter recommended the same to the Board for noting. During this annual review, the Audit Committee deliberated on the key issues pertaining to the related party transactions as recommended in Exhibit 7 of the Corporate Governance Guide: Towards Boardroom Excellence (2nd Edition).
- Upon its review, the Audit Committee concurred with the Management's recommendation that the related party transactions were carried out on normal commercial terms, and not prejudicial to the interests of the Group or its minority shareholders.

INTERNAL AUDIT FUNCTION

The Audit Committee is supported by the Internal Audit Department ("IAD") in discharging its duties and responsibilities. The Internal Audit function is an integral part of the assurance framework and its primary role is to provide assurance on the adequacy and effectiveness of the risk, control and governance framework of the Group. The IAD was established to provide independent, objective assurance and consulting activities within the Group to add value and improve the Group's operations through audits of the Group's key operations and also to ensure consistency in the control environment and compliance with established policies and procedures, rules, regulations, guidelines, directives and laws.

The Head of IAD reports directly to the Audit Committee to maintain the objectivity and independence of the internal audit function. The Head of IAD has the authority to communicate directly, as and when necessary to the Board, Chairman of

the Board, the regulators and the external auditors where appropriate. The Internal Audit Charter, which sets out the mission, objectives, independence, authority, roles and responsibilities, resources and scope of audit work of the IAD, is approved by the Board and communicated throughout the organisation. The Internal Audit Charter is reviewed once in every 3 years.

The internal audit function is carried out by IAD based on the annual audit plan that is reviewed and approved by the Audit Committee. The audit plan includes review of the adequacy of operational controls, risk management, compliance with established policies, procedures, laws and regulations, quality of assets, management efficiency as well as effectiveness of computer application systems and telecommunications network. The Audit Committee also reviews the adequacy of the scope, functions, competency and resources of the internal audit function to ensure that it is adequately resourced with competent and proficient internal auditors.

Pursuant to the Guidelines on Internal Audit Function of Licensed Institutions issued by BNM, the Audit Committee has approved the evaluation process for the Internal Audit Function, which provides a formal and transparent procedure for the Audit Committee to evaluate the internal audit function. The Audit Committee evaluates the internal audit function of the Group once in every 2 years.

A risk-based audit approach is implemented to ensure that higher risk activities in each auditable area are audited more frequently. This is designed to evaluate and enhance risk management, control and governance processes to assist management in achieving its corporate goals. The audits further help to ensure that appropriate instituted controls are in place, effectively applied and achieved acceptable risk exposures in accordance with the Group's risk management policy.

During the year, IAD conducted various internal audit engagements in accordance with the annual audit plan which are consistent with the organisation's goals. IAD evaluated the adequacy and effectiveness of key controls in response to risks within the Group's governance, operations and information systems. The areas evaluated include the following:

- Relevancy, reliability, integrity, accuracy, completeness and timeliness of financial and operational information;
- Adequacy of controls to safeguard the Group's assets;
- Adequacy and effectiveness of the system of internal controls;



- Compliance with policies, procedures, rules, regulations, guidelines, directives and laws;
- Integrity of risks measurement, adequacy of control and reporting systems and compliance with approved risk management policies and procedures;
- Nature of the related party transactions and conflict of interest situation that could raise questions of management integrity;
- Adequacy and effectiveness of the Group's system in assessing its capital in relation to its estimate of risks;
- Effectiveness of Information System ("IS") in supporting the business activities and the adequacy of controls over IS management, systems development and programming, computer operations and security and data integrity;
- Quality and effectiveness of the stress test policy;
- Adequacy and effectiveness of the Validation Programme for DLS Quantitative Information and RCL to PIDM;
- Level of commitment to BCM, and overall preparedness against the Group's BCM policies and regulatory requirements as well as adequacy and effectiveness of Business Continuity Plan and Disaster Recovery Plan testings;

- Risk management and capital management processes relating to ICAAP in accordance with the Guidelines on ICAAP for Insurers issued by BNM; and
- Adequacy and effectiveness of the actuarial valuation process.

The Internal Audit Reports prepared by IAD arising from the audits are deliberated by the Audit Committee and recommendations are duly acted upon by the management. Follow-up reviews are conducted by IAD to ensure that all matters arising from each audit are adequately and promptly addressed by the auditee/ management.

IAD assumes a consultative role prior to the implementation of new information technology projects to evaluate the risk exposures and controls that should be in place to mitigate the risks identified. Nevertheless, IAD will not be involved in the system selection or implementation process to maintain its objectivity and independence.

IAD works collaboratively with the Enterprise Risk Management Department to review and assess the adequacy and effectiveness of the risk management processes within the LPI Group. All the internal audit activities were performed in-house. The total cost incurred in managing IAD in 2017 was RM2,780,000.

A summary of the internal audit costs is as follows:

Cost Category	RM'000	% of Total Cost
Manpower	2,654	95.5
Training	23	0.8
Travelling (inclusive of accommodation)	103	3.7
Total	2,780	100.0



THE PATH OF CONSISTENT

INNOVATION



IN MOVING WITH THE TIMES, INNOVATION
IN PRODUCTS AND DELIVERY SYSTEMS
BECOME FUNDAMENTAL TO ENSURE WE
REACH NEW CUSTOMERS AND MAINTAIN A
LOYAL CUSTOMER BASE.

KEY SENIOR MANAGEMENT PROFILE



Tan Kok Guan

Chief Executive Officer/ Executive Director (LPI Capital Bhd)

Mr. Tan Kok Guan, aged 61, male, was appointed to the senior management position of LPI Capital Bhd ("LPI") on 1 March 1994. He was an executive director of LPI from October 1996 to May 1999 and thereafter served as a Non-Independent Non-Executive Director to July 2013. He was appointed as Chief Executive Officer/ Executive Director of LPI with effect from 8 July 2013.

Mr. Tan held the position of Executive Director of LPI's wholly-owned subsidiary, Lonpac Insurance Bhd, a public company, until his retirement on 7 January 2018.

Mr. Tan does not hold any directorship in any other public listed companies.

Mr. Tan holds a Bachelor's Degree with Honours in Science from the University of London, United Kingdom and a Master's Degree in Business Administration from the University of Hawaii. He is also a Chartered Insurer of the Chartered Insurance Institute in London and an Associate of the Malaysian Insurance Institute in Kuala Lumpur.



Looi Kong Meng

**Chief Executive Officer/ Executive Director
(Lonpac Insurance Bhd)**

Mr. Looi Kong Meng, aged 58, male, was appointed to the senior management position when he joined Lonpac as a Chief Operating Officer on 1 February 2008. He has more than 30 years of experience in the general insurance industry. Mr. Looi was promoted to Chief Executive Officer in 2013. He was appointed to the Board of Lonpac Insurance Bhd as Executive Director with effect from 8 January 2018.

He does not hold any directorship in LPI or in other public listed companies.

Mr. Looi is a Chartered Insurer and Associate of both the Chartered Insurance Institute (ACII) and the Malaysian Insurance Institute (AMII).



Chuang Chee Hing

**Deputy Chief Executive Officer
(Lonpac Insurance Bhd)**

Mr. Chuang Chee Hing, aged 55, male, was appointed to the senior management position on 1 January 1993. He has more than 25 years of experience in the general insurance industry. He was appointed as Chief Operating Officer of Lonpac in 2013 and rose to his present position as Deputy Chief Executive Officer on 1 January 2018.

Mr. Chuang does not hold any directorship in LPI or in other public listed companies.

Mr. Chuang is a holder of a Bachelor's Degree with Honours in Science (Education) from Universiti Sains Malaysia.

NONE OF THE KEY SENIOR MANAGEMENT MEMBERS HAS:

- Any family relationship with any Director and/ or major shareholder of LPI.
- Any conflict of interest in any business arrangement involving LPI.
- Any convictions for any offences within the past 5 years other than traffic offences.
- Any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

All members of the key senior management are Malaysian.



HEADS OF DEPARTMENT

LONPAC INSURANCE BHD
(Wholly-owned subsidiary of LPI Capital Bhd)

BUSINESS DEVELOPMENT DIVISIONS

Yow Kai Fook

B. Chem. Eng.

Agency and Financial Institution
– Senior General Manager

Lim Sun

B. Sc.

Business Unit – Business Advisor

Goh Siew Keng

Chartered Insurer, B. Econs. (Hons.), ACII, AMII

Broking, Global Partnership and Reinsurance
– General Manager

Raymond Tan Soo Boon

Chartered Insurer, B.A. Econs (Hons.), ACII, AMII

Branches Strategic Performance
– General Manager*

Ernie Bak Hock Liang

B. Econs.

Digital Strategy – Senior Manager

Kevin Wong Vui Khong

B. Sc.

*Trade Credit – Director**

Noor Hayati Yaacob

B.A. International Relations

Customer Service – Manager

Yap Chee Kiat

ANZIIF (Snr. Assoc.)

Foreign Branch, Singapore
– Chief Executive

TECHNICAL DIVISIONS

Peter Puah Boon Kee

B.E. (Civil) (Hons.)

Underwriting
– General Manager

Sallehuddin Marzuki

B.B.A. (Insurance)

Underwriting I
– Assistant General Manager

Foong Heng Wah

B.E. (Civil), AAIL

Underwriting II
– Assistant General Manager

Voon Wing Chuan

Chartered Insurer, B.A. (Econs.) (Hons.), MBA, ACII, AMII, ANZIIF (Snr. Assoc.)

Claims – Assistant General Manager

Chew Han Wah

B. Com. (Hons.), FIAA, FASM

*Actuarial – Senior Manager***

Alvin Lim Jun Sum

B.A. Actuarial Science

Pricing – Manager

Lee Chiew Lai

B.Sc.

*Enterprise Risk Management – Manager***

* with effect from 1 January 2018

** with effect from 10 January 2018

PORTFOLIO MANAGEMENT DIVISION

Sonny Tan Siew Hock

Chartered Insurer, MBA, ACII, AMII, HIA

Health & Accident – General Manager

INTERNAL AUDIT

Irene Hwang Siew Ling

B. Acc. (Hons.), CA (M'sia), CPA (M'sia), CMIIA

Internal Audit – General Manager



SUPPORT DIVISIONS

Harry Lee Chee Hoong

ANZIIF (Snr. Assoc.)

Group Finance & Corporate Services – General Manager*

Tammy Kong Thian Mee

Chartered Secretary (FCIS)

Group Secretariat and Human Resource – General Manager*

Ivy Perera

B. Sc. (Hons.)

Information Technology – Deputy General Manager

Ng Seng Khin

B. Acc. (Hons.), CA (M'sia)

Accounts & Finance – Assistant General Manager*

Emily Tan Chooi Hua

Dip. Bus. & Mgt.

Administration – Director

Yong Oi Mei

B. Bus., CPA (Aust)

Compliance – Senior Manager

Lim Wai Cheng

CAHRI, Dip. Bus. Admin.

Employment Management – Manager

Charmaine Chan Wai Mun

CAHRI, B.A. HR. Mgt.

Employees Welfare – Manager

Shanice Goh Ooi Yean

ACIS

Secretariat – Manager

Karen Chee Chui Lin

Dip. Admin. Mgt.

Training – Manager

MANAGEMENT DISCUSSION & ANALYSIS

GROUP BUSINESS AND OPERATIONS

LPI Capital Bhd (“LPI”), through its wholly-owned subsidiary Lonpac Insurance Bhd (“Lonpac”) is a leading general insurance company in Malaysia providing personal, project and operational coverage for individuals and commercial entities. Formerly known as the London & Pacific Insurance Company Bhd, LPI was incorporated on 24 May 1962 and subsequently registered as an approved insurer on 9 April 1963 under the Malaysian Insurance Act 1963. The Company was first publicly listed on the Second Board of the Malaysian stock exchange on 8 January 1993. It was transferred to the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) on 17 January 1997.

LPI’s insurance operations in Malaysia was transferred to Lonpac on 1 May 1999 through a rationalisation scheme. LPI currently has a presence in three markets: in Malaysia and Singapore through Lonpac and in Cambodia through its 45%-owned Campu Lonpac Insurance Plc, which is jointly owned with Cambodian Public Bank Plc and Public Bank Berhad.

In Malaysia, Lonpac presently has a 8.07%¹ share of the general insurance market. Insurance products offered by Lonpac include the following:

- Employees’ Benefits
- Health Insurance
- Liability Insurance
- Motor Insurance
- Marine Insurance
- Pecuniary Insurance
- Personal Accident Insurance
- Project Insurance
- Property Insurance
- Trade Credit Insurance

LPI’s presence in Singapore is small owing to the competitive state of the insurance industry in the country while the Cambodia operations remain at a gestational phase.

LPI AT A GLANCE

- Market Capitalisation: RM6.0 billion as at 31 December 2017
- Key Business Activity: Sale of general insurance products
- Market presence: Malaysia, Singapore and Cambodia
- Total number of employees: 790
 - Malaysia 731
 - Singapore 59

FINANCIAL HIGHLIGHTS (FY2017)

- Gross Premium Income +11.2% to RM1.4 billion
- Profit Before Tax (Adjusted for the non-recurring gains from the sale of equity investment in 2016): +9.6% to RM403.7 million
- Total Assets +4.3% to RM3.8 billion

BUSINESS VISION

LPI is a leading provider of general insurance products in Malaysia through its wholly-owned subsidiary Lonpac. Over the last 55 years, LPI has played an integral role in helping develop and shape the Malaysian insurance industry, and will continue to do so even as the insurance landscape embarks on a new path under a liberalised framework. The LPI Group recognises that it has a continuing role to play in developing the nation in line with the Financial Sector Master Plan and endeavours to fulfil that role to the best of its ability.

At the same time, LPI is cognisant of its responsibilities to its shareholders and places the creation of shareholder value as its top priority. The Group’s prudential business approach that prioritises organic growth, efficiency improvements and customer satisfaction has been instrumental to its consistent profitability, and will remain the guiding philosophy of the Group’s operations.

While remaining true to its core philosophy, changes in the operating landscape has led the Group to evolve and adapt in order to remain relevant and sustainable. One key development is the implementation of the Phased Liberalisation Framework, which puts greater responsibility on insurers to calculate and price premiums for Motor and Fire policies. By moving away from a tariff structure, the new framework has given insurers greater flexibility to conduct their business and also made them more accountable to their stakeholders.

¹ ISM Statistical Bulletin for the period January - September 2017.

Accordingly, Lonpac has made a number of changes over the past few years to better prepare for liberalisation. Examples include the establishment of a Health & Accident Department to prioritise the writing of health and personal accident policies, the enhancement of actuarial resources and also the upgrade of Information Technology ("IT") systems to better serve staff and customer needs. These have contributed positively to the growth of LPI's written premiums which has generally surpassed industry averages.

These initiatives have led to more focused and collaborative product development, which is being overseen by the new Product Development Committee. The closer attention being paid to product development will ensure that new offerings meet customer needs, fall within prudential guidelines and make the most of opportunities to cross-sell and increase revenue. Through these measures, the LPI Group is confident that it will be able to overcome challenges and make the most of all opportunities arising from liberalisation.

Changing demographics has also contributed to the evolving insurance landscape. The proliferation of the internet and growth of mobile device use over the past two decades have engendered a generation of technologically savvy customers who prefer to manage their financial matters online. The use of financial technology or fintech has grown exponentially in recent years with the next generation of customers preferring alternative digital solutions for their financial needs.

LPI recognises that this trend will likely intensify going forward and established a Digital Strategy Department in 2017 to better cater to this segment of customers. The Department has identified two key goals for the Group's digital strategy: firstly, to commence with the digitalisation of the sale and management of its insurance products, and secondly, to transform Lonpac into a true digital business. The implementation of a digital strategy will expand the Company's distribution channels and will also serve as an important tool for customer retention.

As for its international presence in Singapore and Cambodia, LPI is pleased to report that it has seen positive results in both markets in 2017. Although the Singapore insurance market remains highly competitive, Lonpac's strategy of streamlining its offerings have yielded positive results thereby contributing to the turnaround in the country. Operations in Cambodia continue to remain profitable and grows in tandem with the country's economic expansion.

LPI'S FINANCIAL PERFORMANCE IN FY2017

At A Glance

	2017	2016
Profit Before Tax ^(N1) (RM'000)	403,749	518,925
Profit for the Year (RM'000)	313,794	437,223
Basic Earnings Per Share ^(N2) (sen)	94.5	131.7
Total Assets (RM'000)	3,814,615	3,656,113
Total Equity (RM'000)	1,920,911	1,837,316
Return on Equity	16.3%	23.8%
Return on Assets	8.2%	12.0%
Operating Margin	27.3%	37.5%
Net Claims Incurred	38.5%	38.3%

N1 – The Group's profit before taxation decreased by RM115.2 million or 22.2% to RM403.7 million from RM518.9 million in 2016 mainly due to the non-recurring gains of RM150.4 million from the sale of equity investments in 2016. Excluding the one-off realised gains of RM150.4 million, the Group's profit before tax for 2016 would be RM368.5 million. This means that the Group's profit before tax for 2017 increased RM35.2 million or 9.6% in comparison against the previous year.

N2 – The Group's earnings per share for 2016 came up to 86.4 sen if the one-off gains of RM150.4 million arising from the disposal of long term equity investments was excluded.

Profit Before Tax by Segment

	2017 RM'000	2016 RM'000
General Insurance Operations	371,852	336,749
Investment Holding	29,408	179,753
	401,260	516,502
Share of profit after tax of equity accounted associated company	2,489	2,423
Profit Before Tax	403,749	518,925

MANAGEMENT DISCUSSION & ANALYSIS

LPI posted a commendable performance for the financial year under review given the challenging operating conditions. Despite a lower profit before tax of RM403.7 million as compared against RM518.9 million in 2016, profit before tax from general insurance operations grew 10.4% to RM371.9 million from RM336.7 million a year ago, which meets our internal targets. Of our various classes of coverage offered under our general insurance operations, the Miscellaneous class of business posted the strongest growth of 32.5%. Meanwhile, our investment holding operations decreased by 83.6% year-on-year to contribute RM29.4 million to Group profit before tax from RM179.8 million due to non-recurring gains of RM150.4 million from the sale of equity investments in 2016.

The Group's total assets comprise cash in hand, balances and deposits with banks and highly liquid investments amounting to RM294.4 million. These assets bear insignificant risk of change in value as their maturity terms are three months or less, and are used by the Group in the management of its short-term commitments. The capital expenditure commitments for the Group stood at RM11.7 million, which is not material to the Group's financial position. There were no changes to the capital structure and resources of the Group in 2016.

The Group's financial results for the financial year under review pointed to a challenging operating environment for our insurance business. The slowdown in economic activity, particularly in the automobile market, had a direct impact on the premium growth of our motor business, which grew 0.9%. Nevertheless, the property business grew 7.5% in 2017 despite the moderation of activity in the property market.

FINANCIAL AND MARKET CONDITIONS

The implementation of Phase 2 of Bank Negara Malaysia's ("BNM") Liberalisation Framework in the Malaysian general insurance market has seen the intensification of competition, which in turn placed greater pressure on product prices. Despite LPI's commendable result for 2017, Management expects the Malaysian general insurance business to remain challenging with more changes forthcoming following the review of the liberalisation implementation in 2019. However, the continuing improvement in the Malaysian economy—particularly the recovery of the Ringgit against the US Dollar and strengthening fundamentals—are positive developments that will contribute positively to the business.

On a whole, the Group performed well in comparison against the Malaysian general insurance market. The following provides a comparison of Lonpac's performance within the wider industry in some key benchmark areas:

- Market position on Gross Direct Premiums (Motor & Non-Motor) – General Insurance for the period January – September 2017: Ranked 5th
Source: ISM Statistical Bulletin
- Classes of insurance where Lonpac was ranked in the top 3 for the period January – September 2017:

Class	Rank
Bonds	1
Contractor's All Risks and Engineering	1
Fire	1
Liabilities	3
Offshore Oil-related	2
Workmen's Compensation and Employers' Liability	2
Others	2

Source: ISM Statistical Bulletin

- Lonpac's Combined Ratio, the sum of incurred losses and expenses as a percentage of earned premiums, was 64.9% compared to the industry average of 92.5% for the period January – September 2017
Source: ISM Statistical Bulletin
- Lonpac's Management Expenses Ratio was 19.4% as compared to the industry average of 24.2% for the period January – September 2017
Source: ISM Statistical Bulletin

2018 will remain a challenging year with insurance players continuing to adjust to changes brought about by the new liberalised framework. Competition is expected to continue to grow. LPI's Board remains confident that the Group's healthy financial position, commendable capital adequacy ratio and business strategies are sufficient to ensure effective competition in its core business.

CAPITAL MANAGEMENT

The management of the Group's capital holdings is guided by LPI Group's Capital Management Plan ("CMP"), and is aligned with the Group's business strategy and existing regulatory requirements. The CMP contains a comprehensive list of triggers and contingency solutions that will be triggered by specific events or by the current level of capital adequacy.

The CMP also assesses risks and threats to the Group in stipulated scenarios. The CMP outlines the appropriate response to these risks and threats with the intensity of response dependent on the event or the extent of the capital threshold breach. The mitigating responses in the CMP aim to maintain normalised capital levels for the Group at all times to ensure business continuity.

As at 31 December 2017, the Group's Capital Adequacy Ratio ("CAR") was higher than the supervisory CAR of 130% set by BNM and the Group's Individual Target Capital Level.

Stress Testing

The Group's stress testing exercise is guided by BNM's *Policy Document on Stress Testing* and aimed at identifying threats stemming from potential adverse events. Stress testing has been tailored to take both the current business environment and the Group's risk profile into account. It also factors in the direction and scope of the Group's existing business activities into the risk model.

LPI Group's stress testing exercise was designed to be comprehensive, rigorous and predictive, and is regularly reviewed by both the Board of Directors and Management. The results of the review are used to identify and manage existing and potential risks that may have a negative impact on the Group's capital base and financial health. Members from the Board and Management are active participants in the stress test and are responsible for assessing the methodology, assumptions and testing results.

The stress testing exercise conducted in 2017 demonstrated that the Group has strong capital adequacy to support its business requirements and provide adequate buffer against potential underwriting volatility. The new liberalised regime has assigned greater risk management responsibility to insurers, and the Group is aware of its enlarged role under the new framework.

Dividend Policy

LPI Group has paid dividends to shareholders every year since listing in 1993. The Group's practice of regular and healthy dividend payout is consistent with its capital management strategies and is part and parcel of its overall reward to shareholders. The Group expects to continue this practice going forward barring any sudden and drastic changes in the Group's financial and operational environment.

External Benchmarking of Lonpac's Financial Strength

Lonpac voluntarily submits itself to an annual financial strength assessment by global insurance rating agency A.M. Best Asia-Pacific Limited ("A.M. Best"). This assessment functions as an external benchmark that provides our stakeholders with an objective benchmark to determine the financial strength and stability of the Company.

On 27 September 2017, A.M. Best reaffirmed Lonpac's financial strength rating of A- (Excellent) and "a-" issuer credit rating with a positive outlook attached to both ratings. The rating affirmations reflect the Company's strong risk-adjusted capitalisation and very commendable operating track record. A.M. Best noted that Lonpac generates one of the highest underwriting margins in Malaysia's non-life market and its performance has been very strong compared against peers based on a number of measures.

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATING ACTIVITIES

The Group's focus continued to be placed on optimising business processes in the new liberalised regime through the introduction of new processes, IT systems and operational procedures. The Business Process Management ("BPM") system, an improved underwriting and policy management initiative, will be rolled out to the different product classes in phases, and is expected to yield greater efficiencies in terms of cost and business operations.

The Digital Strategy Department was formed in 2017 to transform Lonpac into a true digital business by 2019. The Department aims to optimise the digitisation of the Company's insurance business to better cater to the new generation of technologically savvy customers. It will also explore the use of new fintech such as mobile apps, social media and enhanced web platforms to optimise business processes and product sales for the Group.

Lonpac also established a Product Development team in 2017 to enhance product research and make the most of new opportunities presented by liberalisation. The team takes an integrated approach to product development and will ensure that all products fulfil set standards in meeting customer expectations, economic value creation and falls within prudential guidelines.

The following section provides an overview of Lonpac's activities in 2017.

Underwriting

Lonpac's Underwriting Division performs all of the Company's underwriting functions including:

- assessing and underwriting of risk;
- providing technical advice to agents and clients;
- determining insurance terms and conditions;
- preparing policy documentation; and
- supporting marketing initiatives.

The Underwriting Division also provides technical training to both staff and agents, and works with other departments to ensure that both the front- and back-ends of the underwriting processing system and interface of the Company function properly.

In line with the liberalisation of the Malaysian general insurance framework, the Underwriting Division has undertaken a number of initiatives to ensure a smooth transition as well as introduced new products to make the most of new opportunities. While the transformation of the underwriting process has been ongoing over the past few years, notable initiatives introduced in 2017 include the launch of the BPM systems in the fourth quarter of 2017 for the Motor class of business. Implementation of the BPM Fire is presently underway and is expected to be completed by the third quarter of 2018. The BPM aims to replace the existing underwriting front-end and sales IT systems for both classes of business. Benefits from the implementation include greater cost savings and ease in collaborating with current and future business partners.

Meanwhile, the existing IT system for Motor has been enhanced to cater to the changing needs of Lonpac's customers and agents within the new detariffed environment. With liberalisation, stakeholders require a more efficient front-end system to price risk. The implementation of BPM and other IT enhancements will allow for more dynamic premium pricing and also allow greater compatibility with third-party systems to expand existing business channels.

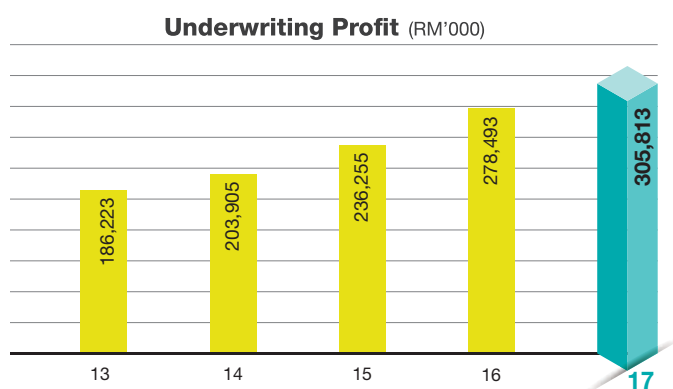
On the product side, Lonpac launched the new Private Car Secure for Motor in July 2017. The new product complies with the new premium pricing structure under the liberalised regime. Several new Fire products are currently being developed under the liberalised regime. Some of the detariffed products are scheduled to roll out in December 2017 and the rest will be made available to the customers in the first quarter of 2018.

In further optimising the underwriting function in the new detariffed environment, a Product Development team as well as various product development working groups were formed during the past year. The team and working groups, made up of key staff from the Underwriting, Sales and Pricing Departments, were formed to engender greater focus and objectivity in Lonpac's product development.

Research-based and focused on product sustainability, the team and working groups will perform regular reviews of existing products and originate new ones to better meet customer expectations. The team has also been tasked with monitoring the sales and profitability of new products and report findings to Management. The Product Development team is expected to play a critical role moving forward and plans are underway to formalise and enhance its scope of work.

Underwriting Division performance benchmarks for FY2017

The key benchmark tracking the performance of the Underwriting Division is the total value of underwriting profit and changes in the Company's loss ratio. In 2017, Lonpac wrote RM305.8 million in underwriting profit representing a change of 9.8% from the RM278.5 million posted in 2016. Meanwhile, its combined ratio increased to 64.0% from 63.7% due to a corresponding increase in the Company's net claims incurred ratio and net commission ratio.



Health & Accident Department

The objective of the Health & Accident Department is to make the Company a leader in the Malaysian market through the new individual products and innovative methods in the marketing of group products in collaboration with key agents and large corporate clients. This initiative is part of a long-term plan to write health insurance profitably by increasing the sale of individual and group health products.

Since the establishment of the Department in 2015, contributions from the health insurance market has grown significantly, with Lonpac, as at the end of September 2017, ranking as the fourth largest health insurer in the Malaysian market in terms of gross premium (from sixth largest at the start of the year). Agent sales of health and accident policies increased in 2017 following the detariffication of the Motor and Fire classes of business. As liberalisation will affect agents' income, liberalisation will further motivate agents to place greater emphasis on the sale of individual health and personal accident policies to bolster their earnings.

By the end of 2017, gross premium collected for health insurance grew 32.0% as compared to the same period the previous year. Earned premium, meanwhile, grew 43.7% during the same time frame with the Net Incurred Claim ratio standing at 73.2%.

In the personal accident insurance business, Lonpac did not register significant growth in terms of gross premiums collected, but managed to grow earned premium to 8.8% as compared to the same period ending for the previous year. The Net Incurred Claim ratio for personal accident stood at 35.0% by the end of 2017.

In view of the growth trend seen over the last few years, the Health & Accident Department took a decision to increase its staff force to support its operations. Growth is expected to be further driven by a new initiative to sell health and personal accident insurance online and through mobile apps. These digital distribution channels are expected to be launched in 2018, and will be supported by initiatives to improve health insurance claims in the IT system.

Agency Network

Lonpac's agency network continued to be the main contributor of gross premium income in 2017, contributing RM686.7 million to the total representing an increase of 18.5% from RM579.4 million in 2016. The agency network, as Lonpac's most important distribution channel, has performed admirably in the competitive insurance marketplace in Malaysia.

To ensure that its agency network remains competitive and relevant in the new insurance landscape, Lonpac has in place a long-term plan to increase the total number of agents by 10% every year until 2019. In 2017, a total of 451 agents were recruited compared to 400 in 2016, growing the total number of agents to 2,562 from 2,244 a year ago.

The Agency Department is primarily responsible for growing the network, training agents and retaining the agency workforce. The Department focuses on improving agency benefits and recognition, and conducts continuous training programmes to improve service quality. A number of seminars and workshops were held for the agents in 2017.

Retaining agents is a key priority for Lonpac given the importance of the distribution channel. Over the years, Lonpac has introduced and refined its incentives to motivate and encourage loyalty and improved performance from its agents. Incentive programmes are organised for the network of Lonpac agents which include sales campaigns for specific businesses classes, as well as international sales conventions.

MANAGEMENT DISCUSSION & ANALYSIS

In recent years, Lonpac has emphasised the recruitment of technologically savvy agents as part of its digital transformation strategy. By building this cohort of agents with digital knowhow, the Company aims to better meet the needs of its changing customer base as well as drive greater automation through the use of IT. Sales from future channels such as the internet and mobile apps will expect to perform well with the help of these agents.

Lonpac organises annual conventions to recognise its top-performing agents. Conventions were held for its Titanium, Platinum and Gold Masterclub award holders in Norway & Sweden, Xi'an & Luoyang in China and Danang in Vietnam respectively. Membership in the Masterclub is fluid as it is based entirely on the performance of the agents as well as other considerations. In 2017, Lonpac recognised 172 agents as Masterclub Members. There was an initial 16 Masterclub Members when the programme began in 2006.

Lonpac Masterclub recognises top performing agents based on their premium volume, profitability and their ability to build balanced portfolio. The recognition is designed to reward agents on their good performance and motivate them to improve further.

Broking & Global Partnership

Lonpac's Broking and Global Partnership Department is responsible for managing two significant channels of business for the Company.

Broking

Lonpac's Broking Unit has in recent years focused its efforts on fostering relationships with key international and local brokers. Through the brokers, Lonpac has been involved in the insurance programmes of major government infrastructure projects. Lonpac is well recognised as the insurer with the experience and capabilities to write complex project risks such as the Klang Valley MRT ("KVMRT") and East Coast Rail Link ("ECRL") projects.

In 2017, the Broking Unit contributed total gross premium income of RM116.9 million from RM141.4 million a year ago, representing 8.2% of Lonpac's total gross premium income. During the year, the Broking Unit added a number of projects to its portfolio including the RAPID projects and the development of the KVMRT Line 2.

In terms of business outlook, the Malaysian broking industry has become increasingly competitive with the entry of new players, both local and foreign, spurred by the newly liberalised framework. With competition increasing in almost all areas of the broking business, Lonpac's strategy is to focus on integrating various departments, e.g. Broking together with Health & Accident, to capitalise on fast-growing medical and personal accident insurance segments

The Broking Unit continues to place emphasis on prudent underwriting, risk management and technical training for the team. Underwriters are working together with the pricing and broking/marketing teams to develop comprehensive and innovative product packages to meet changing demand.

Global Partnership

The Global Partnership ("GP") Unit seeks to develop collaborative partnerships with international insurers who are not licensed to operate as direct insurers in Malaysia and build working relationships with them. In this arrangement, global partners introduce their international clients in Malaysia to Lonpac while Lonpac undertakes to insure and service these clients for their insurance needs in Malaysia. The GP Unit is responsible for designing and issuing local policies in compliance with Malaysian rules and regulations for multinational clients with business and commercial interests in the country.

In 2017, the GP Unit tied up with China-based PICC HK and ChinaRe and added them to Lonpac's stable of global partners. This is an important development for the Company as it provides Lonpac an opportunity to tap the potential of One Belt, One Road Initiative of which Malaysia is a major participant.

Total premiums written by the GP Unit totalled RM93 million in 2017 increased from RM88 million a year ago. The Fire class of insurance was once again ranked top in terms of contribution to GP's business income. Apart from Fire, GP has a strong portfolio in specialised liability classes of businesses including Directors & Officers Liability, Public Product Liability, Clinical Trial Liability and Professional Indemnity. This sizable portfolio of business supports Lonpac's overall strategy to establish itself as an important liability player.

In line with Lonpac's strategy to enhance IT use, the GP Unit plans to leverage on technology to enhance its operational efficiency. Service excellence is a key requirement to ensure that service benchmarks of international partners are met.

Additionally, the GP Unit will continue to focus on areas of specialisation and work to enhance business relationships with partners to generate greater business opportunities.

The GP Unit will continue to work hard to increase its stable of global partners. The diversification of partners is important as the global insurance industry remains dynamic as mergers and acquisitions of existing partners may have an impact on our business.

Financial Institution

The Financial Institution ("FI") Department leverages on LPI Group's relationship with Public Bank Berhad ("PBB") and other FI clients to function as channels for the distribution of Fire and Houseowner insurance products. Lonpac supports its partners by providing insurance technical support while exploring new business avenues together. It also taps into the clients of its FI partners to cross-sell non-mortgage related insurance products to further expand Lonpac's business portfolio.

Contributions from FI totalled RM343.1 million for the financial year under review, representing a 7.6% increase over the previous year. Income from the FI segment accounted for 24.1% of total gross premium income for the past year. The FI Department's improving performance was due to the increased penetration into FI partners' client base. Increased referrals and lead generations from FI partners resulted in higher premium income.

To better support our FI partners, the Department was restructured in 2017 and increased its focus on business development. Through the restructuring, the Department is now divided into two units: Business Development and Operations & Sales Support. The division enables greater discipline of focus as each unit will concentrate on their own specific role.

Going forward, Lonpac's partnership with financial institutions will remain a core part of its operations as it endeavours to increase its Fire and Houseowner portfolios. The FI Department will be introducing new, enhanced Houseowner products to clients of FI partners to leverage on the liberalisation framework.

Claims

In a highly competitive general insurance market, differentiation through improved and efficient claims management practices is an important and effective way to increase market share and profitability. Lonpac's Claims Department is committed to transform the claims process by leveraging on modern claims systems that are integrated with robust business intelligence, document and content management systems. This enhancement is expected to create operational and strategic benefits by reducing claims cost and thereby improving the Group's combined ratio, as well as improving claims processing efficiency and help with customer retention.

Lonpac is moving towards a new horizon in claims handling where claims are no longer viewed merely as a "back-end" operation. With our team of skilled and highly dedicated personnel working in designated classes of claims, Lonpac is setting itself apart from its competitors in the area of excellence in claims handling. Performance criteria, processes and procedures are clearly documented and shared with relevant personnel to ensure the effective management of claims.

The Company's philosophy to claims assessment is focused on flexibility as different types of insurance will require different approaches and methods based on available facts, particular policy wordings, timing and other circumstances specific to each claim. Claims authority and duties are segregated in Lonpac to ensure the smooth running of the entire process.

MANAGEMENT DISCUSSION & ANALYSIS

The processes are focused on value creation all through the value chain from the initial claims notifications, appointment of loss adjusters, investigations and settlements. All pertinent feedback and complaints received are viewed with importance and given the due attention deserved. Claims information and knowledge are made available and used in business planning and decisions, which in turn enables claims processors to explore and develop business solutions addressing the customers' unique needs.

In terms of the claims reserving process, it is aimed at creating a consistent, timely and accurate result as part of the overall claims management process in line with policy contractual obligations. Taking into account the possibility of cost and recovery potential, reserves are reassessed promptly upon receipt of relevant additional information. Initial claims reserves are reviewed regularly based on average claims costs with the latest available information.

On top of meeting customers' and stakeholders' expectations, every legitimate claim is treated with utmost care. Proper and stringent claims control procedures are in place to guard against fraudulent claims and, when necessary, expert opinions are sought to advise on a claim. To further secure its operations against fraud, the Claims Department is working with ISM Insurance Services Malaysia Berhad ("ISM") and its Fraud Intelligence System ("FIS") to identify potential fraudulent motor claims using cutting-edge technology and analytical techniques. FIS is a platform allowing organisations across industry to collaborate by integrating industry-wide data.

By implementing a real-time analytical engine that calculates the propensity for fraud at each stage of the claims cycle—from the claims notification to the claims settlement—the effectiveness of fraud detection and prevention can be enhanced.

Developing an integrated digital claims system

An integrated claims system helps to improve operational efficiency, reduce claims management costs, and enhance the customer claims experience. Implementing a single integrated claims system minimises the built-in complexity of disparate legacy systems and improves the flexibility of the claims processing system. It also promotes the effective sharing of claims data that will in turn assist Management in making strategic and tactical decisions based on accurate and well-analysed information. These decisions are likely to result in improved efficiency and effectiveness, better regulatory reporting and compliance, more astute strategic planning and, ultimately, improved profitability.

Lonpac employs a Business Intelligence System and Document Management System ("DMS") which stores and manages the appropriate claims-related data using standardised data dictionaries, data field code tables/ descriptions and data file layout formats. The harmonised data structure facilitates the sharing of claims data throughout the organisation and enables information-based strategic planning. Management is able to obtain specific data on existing claims-management performance and discern the potential impact of a given strategic decision.

To support the newly formed Digital Strategy Department, the Claims Department is also innovating and heading towards online claims processing. In doing so, the Department intends to leverage on straight-through minor claims approval for selected lines of business to reduce manual interventions and process delays. This process includes digitising the claims processes to enable access from any mobile device in a simple and convenient manner.

The shift towards the digitalisation of the claims process is expected to result in lower claims processing costs and reduced levels of fraud. The focus is being placed on providing positive customer experience and applying mobile tech solutions to better engage with customers during the claims process. With the full deployment of digitalisation, Lonpac customers will benefit from a quicker, easier and improved claims assessment response.

Finally, the Claims Department is moving towards implementing a BPM claims system to deliver improved claims-processing methods that automatically align resources within an optimised end-to-end claims process. It also functions as a strategic platform enabling more efficient claims operations and provides a positive claims experience to customers. This approach gives the Claims Department the flexibility to offer customised solutions to policyholders in order to meet their business objectives. These enhancements are expected to improve key performance indicators for Claims Department.

Claims Department performance benchmarks for FY2017

The productivity of the Claims Department is measured by the number of claims settled per claims staff during the year. Staff productivity continued to improve with 1,395 claims settled per claims staff as compared to 1,340 claims settled per staff recorded in 2016.

The statistics of claims registered and settled in 2017 are as follows:

Class	No. of claims registered		No. of claims settled	
	2017	2016	2017	2016
Fire	4,875	3,273	2,243	1,769
Marine	768	819	478	465
Personal Accident	8,987	6,066	7,906	5,142
Miscellaneous	5,903	4,547	4,984	3,464
Health	9,810	8,235	7,825	6,585
Workmen's Compensation	1,363	1,522	528	642
Motor	23,252	21,984	13,395	11,531
Liability	1,344	1,444	333	324
Bond	29	69	23	19
Aviation	0	0	0	0
Engineering	818	778	307	269
Total	57,149	48,737	38,022	30,210

MANAGEMENT DISCUSSION & ANALYSIS

Information and Communications Technology (“ICT”)

Lonpac’s IT Department is at the core of the Company’s operations, responsible for enabling day-to-day operations to supporting the implementation of business initiatives and strategies. The Department is also responsible for securing data and systems integrity as well as the protection of private client data. The growing ubiquity of digital technology has led to the constant and regular update of ICT systems to ensure that Lonpac’s products and services meet customer expectations and enable optimal productivity levels.

Increasingly, customers and clients are demanding that insurance products and services be made available online. The IT Department is at the forefront of this development and has implemented initiatives to ensure that these demands are met. Some of these examples in 2017 include:

- **Enabling online insurance purchase from the Foreign Workers Centralised Management System (“FWCMS”)**

FWCMS is a web-based system developed as a common platform for registered Malaysian employers and parties to interact and manage migrant workers. Through FWCMS, employers can purchase workers’ scheme insurance from Lonpac directly and make payment online. The policy is generated immediately thereby facilitating efficient migrant worker coverage. As purchases through this facility are secured and immediately visible, employers can proceed uninterrupted to the next phase of registering their workers, namely the VDR (Visa Dengan Rujukan) application. Integrating Lonpac’s services with FWCMS renders the recruitment and management of migrant workers hassle-free, while creating a new business channel for the Company.

- **Purchasing motor insurance via Mobile App**

With mobile technology becoming the dominant platform for online information and web access, Lonpac has started collaborating with intermediary partners to bring its products to mobile. Through the ‘GetCover’ online mobile platform, consumers are now able to access their policy and vehicle information, obtain a quote, purchase motor insurance from Lonpac and renew their road tax on their mobile devices. The app is linked to both ISM and the Road Transport Department (“JPJ”), thereby making all relevant information including the No Claim Discount (“NCD”) available. When

payment is made, policy details are sent via trusted and secured channels to the Lonpac System for policy generation. Policyholders are then able to view the policy schedule on their mobile device.

- **Developing new eInsurance products**

The IT Department is also responsible for developing new eInsurance products to be distributed by Lonpac’s intermediaries. These products, such as Caravan Medisecure, are distributed via eInsurance web-based systems. Caravan Medisecure is an individual new medical insurance product that cover expenses incurred from hospitalisation or surgery.

In addition to customer-focused solutions, the IT Department is also enhancing its systems and processes for Lonpac’s partners and intermediaries. For example, Lonpac introduced the digitisation of its intermediaries’ Statement of Account (“SoA”) such that intermediaries will receive their statements monthly automatically. In another enhancement, new claims and payments are now automatically registered with the Lonpac System following its integration with specific third party Administrator/Managed Care systems. This is designed to improve the efficiency of claims and the payment registration process.

Other key developments in 2017 designed to provide better services include allowing intermediaries to issue master policies to expedite the application process. Through this enhancement, intermediaries are now allowed to issue the master policy for Foreign Workers Compensation Scheme (“FWCS”) and Skim Kemasukan Hospital & Pembedahan Pekerja Asing (“SKHPPA”) insurance on behalf of Lonpac. This enhancement streamlines and speeds up the processing time thereby helping employers in purchasing insurance for their workers.

This feature was incorporated into Lonpac's web-based system to allow selected intermediaries to extend the period of insurance for some products. Instead of sending the instruction on the change to Lonpac servicing officer, they now can initiate the extension of the period of insurance directly via our web-based system. Other enhancements include incorporating ISM's VIX (Vehicle Information Exchange) platform that allows vehicle information to be extracted from the ISM when the vehicle registration number is entered into the Lonpac System. This enhancement eliminates data entry errors thus speeding up the issuance of motor insurance.

In addition to initiatives supporting the sale and distribution of Lonpac's insurance products, the IT Department has also worked on improving its backend systems to ensure capacity demands are met and to meet data protection and privacy requirements. Some of the upgrades include:

- **Messaging Middleware Upgrade**

Lonpac has embarked on a project to upgrade the messaging middleware platform, which is used to communicate with strategic partners using diverse computing environments. In addition to system availability, security and performance enhancements, the new platform provides a more efficient and effective approach in integrating Lonpac's system with third parties, therefore eventually improving user experience.

- **SAN Storage Upgrade**

A major upgrade in performance enhancement, Lonpac has migrated its current Unified Storage Area Network ("SAN") to an All-Flash SAN storage. The migration ensures that not only high-performance storage requirements are met, but also keeps pace with data growth in order to achieve the Company's strategic long-term ICT vision. The upgrade also provides a degree of future-proofing of Lonpac's ICT system.

- **Branches Wide Area Network ("WAN") Bandwidth Upgrade**

The branches WAN infrastructure was reviewed and upgraded to support existing mission critical applications as well as to cater for future applications running on multiple platforms. In 2017, the WAN of all Lonpac branches were upgraded to Metro-Ethernet ("Metro-E") network. With this new infrastructure upgrade, branch users have been switched to a dedicated network with optimal bandwidth performance. Metro-E technology also provides better scalability and fault tolerance in the network infrastructure of Lonpac branches.

- **Data Protection and Privacy**

Lonpac takes its commitment to protecting the confidential data and privacy of its clients very seriously. It conducts regular data security assessments, which include end-to-end penetration and web application testing. Potential vulnerabilities in both back- and front-end interfaces are identified and addressed. Its IT security is also assessed annually by a qualified third-party vendor certified by the Payment Card Industry ("PCI") Security Standards Council. Lonpac's Security Risk Rating typically ranges from Secure to Highly Secure depending on the specific risk assessment.

In 2017, the IT Department introduced two upgrades to further secure its data platform:

- **Email Security Appliance Upgrade**

Lonpac sends multiple emails to customers and business partners on a daily basis, exposing the Company to malware attacks via email. The IT Department took a decision to strengthen Lonpac's email gateway protection by incorporating advanced malware protection offering file reputation scoring and blocking, static and dynamic file analysis to allow for continuous analysis of email threats. Additionally, the upgrade will minimise email system downtime and maintain uninterrupted email communication.

MANAGEMENT DISCUSSION & ANALYSIS

• Network Intrusion Prevention System (“IPS”) Upgrade

Due to the increased number of application servers and business systems implemented over the last few years, the IT Department took a decision to upgrade its IPS to Next Generation IPS that leverages signatures, behavioural heuristics and related techniques to detect sophisticated attacks. In addition, it streamlines security operations by combining the identification of potential attacks and malicious files for fast and accurate response to network-borne attack.

Moving forward, the IT Department aims to further enhance its systems by developing IT tools to engender faster turnaround times for implementing system changes as well as mobile app solutions for the distribution of its product. Plans are also in place to further strengthen its IT security infrastructure and anticipate changes that new innovative digital solutions require.

OUTLOOK AND MOVING FORWARD

The Malaysian economy is expected to remain steady with economic growth supported by domestic demand and spending on infrastructure projects. A strong labour market and ongoing private investment in the manufacturing and services sectors are expected to further bolster the market, although growing household indebtedness may dampen private consumption. According to the Malaysian Institute of Economic Research (“MIER”), a 3Q2017 survey showed that sentiments have slackened somewhat with the Business Confidence Index falling 11 points due to poor manufacturing sales, production slowdown and lower domestic and export orders. However, the think tank added that it expected higher export sales and production levels for 4Q2017.

A large part of Malaysia’s economic performance will depend on the performance of external markets, particularly key global and regional markets. While the outlook for ASEAN looks quite rosy—growth is expected to surge in Singapore and Vietnam with both countries posting multi-year high growth figures—prospects for countries further afield remain less certain as political uncertainty continues to be story of the day. One positive development is the improving prospects of China. Growth in the world’s second largest economy picked up in the second half of 2017 prompting economists to revise its expansion prospects upwards.

Elsewhere, the global economy has failed to sustain any sort of growth momentum, with predictions for the growth of the US economy cut following the administration’s failure to carry out its promised economic reforms. Similarly, growth in Europe looks to have stalled as individual governments deal with political issues within their own backyards.

Outlook for the Insurance Industry

Phase 2 of BNM’s liberalisation was implemented in July 2017. As expected, the implementation has seen cuts in total gross written premium due mainly to the entry of new players into the marketplace ahead of liberalisation. While no new provisions will be introduced into the market in 2018, a period of adjustment will continue into the year as insurance players rediscover their footing. Consolidation is expected to continue in the marketplace as insurers unable to cope with the new liberalised framework will be forced to consolidate or merge with others.

Nevertheless, it is widely acknowledged that the Malaysian insurance market continues to hold great growth potential. In a recent speech, BNM’s Governor Tan Sri Muhammad Ibrahim noted several key numbers regarding the Malaysian insurance sector:

- Insurance companies accounted for only 3% of assets in the Malaysian financial system
- Only one in 10 Malaysians had a life insurance policy
- Insufficient development in local underwriting and management expertise



In his speech, the Governor noted that transformative change in the insurance industry was a key priority for the financial sector, and that BNM will outline the areas of development focus for the industry in the coming years.

The commitment by the Government to industry development can be read as nothing other than a positive for the long-term development of the industry. Lonpac, as one of the pillars of the Malaysian insurance industry, fully supports the plan moving forward and will collaborate with all parties to bring out the full potential of the sector.

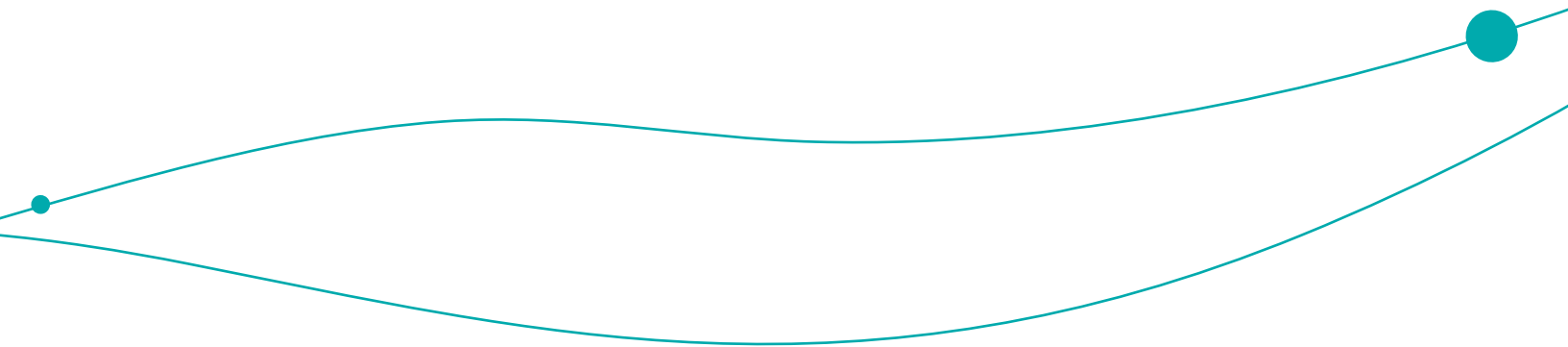
In the short-term, however, the insurance sector in Malaysia will continue to benefit from Government spending on mega-infrastructure projects. Projects such as the development of the KVMRT Line 2, the ECRL as well as the expansion of the LRT line will engender opportunities for project coverage, while growth in average national income should also boost demand for personal coverage.

In terms of the operating environment in Malaysia, the insurance sector will benefit from continued Government spending on infrastructure development projects. Projects such as the development of the MRT announced under the Economic Transformation Programme will continue to drive demand for coverage, as will other projects announced under the 11th Malaysia Plan. Finally, the growing affluence of Malaysians is driving the demand for specialised as well as traditional insurance products.

Expectations and Opportunities

The LPI Group's performance in 2017 built on the success enjoyed in 2016, and demonstrates that it has adjusted well to the liberalised market. Nevertheless, Lonpac is committed to taking its performance to the next level and will continue to make enhancements to support the upgrades introduced during the past year. More will also be done to make the most of the opportunities presented by the new liberalised regime, particularly through the introduction of the Product Development Committee and the implementation of the new digital strategy.

The continuing implementation of the BPM systems for both Fire and Motor classes of business is also expected to contribute positively to operations in 2018. Meanwhile, the Health and Personal Accident portfolios have demonstrated strong growth since the launch of the department in 2015, and continues to hold substantial potential for greater growth. Finally, enhancements to the underwriting and claims process should lower the Company's combined ratio and thus grow its competitive edge.





THE PATH OF BRIDGING

EXPECTATIONS



RESULTS ARE ACHIEVED THROUGH BALANCING
THE EXPECTATIONS OF OUR CUSTOMERS AND
STAKEHOLDERS THROUGH ETHICAL EXECUTION
STANDARDS AND TRANSPARENT VALUE DELIVERY.



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SUSTAINABILITY REPORT

NOTE FROM THE CHAIRMAN OF THE BOARD

DEAR STAKEHOLDERS,

LPI Capital Bhd's ("LPI") Sustainability Report 2017 is the second such report disclosing the initiatives and achievements related to the Group's sustainability practice. Our inaugural report, produced for the 2016 reporting year, was written in compliance with the new listing requirements of Malaysian stock exchange operator Bursa Malaysia Securities Berhad ("Bursa Securities"). Since the publication of that report, the Group has continued to refine its sustainability practice to develop a more robust set of sustainability policies and become more comprehensive in scope.

Over the last year, we continued working on and revising our ongoing corporate responsibility ("CR") initiatives to better align them with sustainability goals, namely towards the bottom lines of the Economy, the Environment and Society ("EES"). Whilst it has always been a part of LPI's culture to prioritise sustainability in all that we do, the new regulatory requirements have helped us to reflect on our EES impact, as well as better understand our role in the wider community.

One of our key initiatives in 2017 was to improve our materiality identification process. To that end, we expanded our sustainability survey to poll a wider group of stakeholders including walk-in customers, business partners, shareholders, media representatives as well as staff from throughout our organisation. While the findings of the survey were generally in line with our expectations, there were one or two interesting findings regarding what our stakeholders deemed material. Methodology aside, we continued to implement our sustainability initiatives and identified benchmarks where possible to allow us to quantify the impact of the initiatives.

The Sustainability Committee comprising members of senior management and executives has performed admirably over the past year to improve our sustainability reporting framework while incorporating new elements into the report. Although our sustainability reporting framework remains a work in progress, we have shown significant dedication to the task and we will continue to enhance the report going forward.

From an operational standpoint, one significant change over the last year directly related to sustainability is the implementation of Lonpac Insurance Bhd ("Lonpac")'s digital strategy. It is undeniable that technology and digitisation is the way forward for business in general and we, as insurers, are not exempt. We recognise that the new generation of customers prefer to purchase and manage their financial instruments online rather than go through traditional channels, and we expect this trend to pick up. Our digital strategy, therefore, cannot be seen as anything other than a tool to ensure our sustainability and relevance going forward.

Going digital, however, is not just about appealing to a new generation of customers but also about creating substantial savings and efficiencies from our transformation into a true digital business. From this perspective, we can see the transition to digital as a cost-savings and a process optimisation initiative as well—both of which figure heavily in building a sustainable business. This is particularly important given the change in the Malaysian general insurance landscape, which is transitioning into a tariff-free structure.

Owing to liberalisation, competition from other insurers has, as we expected, intensified significantly and margins have been placed under pressure. That Lonpac has performed as admirably as it did in 2017 is a testament to the effectiveness of its strategy rather than a comment on the condition of the market itself. But we cannot afford to rest on our successes; indeed, it is because of this greater competition that the impetus for us to make our own digital transformation becomes all the more important if we are to remain sustainable.

I would like to thank the Management and staff of LPI and Lonpac who have worked hard to enhance our sustainability framework. Much more needs to be done to secure the sustainability of our company for the next 55 years, but I am confident that the groundwork paving the way forward is already complete. I look forward to our transformation into a sustainable digital company in the years to come.

SUSTAINABILITY REPORT

ABOUT THIS SUSTAINABILITY REPORT

This Sustainability Report discloses material sustainability issues and impacts arising from the activities of LPI and its wholly-owned subsidiary Lonpac. The contents of this Sustainability Report have been reviewed and endorsed by LPI's Board of Directors. The Board is represented on the Sustainability Committee by its Executive Director Mr. Tan Kok Guan, who is the Chairman of the Sustainability Committee.

This Sustainability Report has been prepared in line with the guidelines provided by Bursa Securities, the Malaysian stock exchange operator. All efforts have been made to provide thorough and comprehensive disclosure of the impact of all activities. However, as the sustainability framework remains a work in progress, some areas may not be ready for reporting purposes, and we endeavour to make these available in future reports.

In this report, material sustainability issues are defined as information that may positively or negatively influence LPI Group's ability to deliver on our Vision, which is to be the preferred premier insurance solutions provider. Our stakeholders are identified in the relevant section and include feedback from our customers, business partners, employees and regulators.

The preparation of this report has been guided by the principles contained within the AA1000 AccountAbility series, which are designed to help organisations become more accountable, responsible and sustainable.

REPORT SCOPE

The scope of this report is limited to the sustainability impact of the general insurance operations and initiatives of LPI's wholly-owned subsidiary Lonpac. While Lonpac also conducts general insurance activities elsewhere in the region, i.e. in Cambodia and Singapore, the company's presence in these countries is relatively small with negligible impact. While we may incorporate the sustainability initiatives of these foreign operations in future reports, the scope of our 2017 Sustainability Report will remain limited to our Malaysian general insurance operations.

Lonpac takes on a number of roles as a general insurance provider in Malaysia. Amongst these are as:

- A provider of insurance coverage for individual, commercial and industrial stakeholders, including stakeholders from the Public Sector involved in national infrastructure development

- An economic entity contributing to the growth of the national economy through the remittance of taxes, employment and procurement activities
- An employer to a network of 731 staff and 2,562 agents across the nation
- A charitable corporate entity supporting organisations focused on building capacity in our communities

Our Core Values

The LPI Group's sustainability framework is supported by a set of core values which forms the basis of our culture. Our core values represent the way we conduct ourselves, outlines our responsibilities to our customers, our stakeholders, our employees and our community. Our core values are as follows:

- Aspire to be the **LEADER** in the insurance industry in Malaysia and in the region.
- Commitment to **OPERATIONAL EXCELLENCE** guided by integrity and professionalism.
- Creating **NEW AND INNOVATIVE** market-relevant insurance products.
- **PROVIDING** a fair, caring and merit-based working environment.
- **ADOPTING** a proactive and accountable approach to stakeholders.
- **CRAFTING** a premier insurance brand identified for good corporate governance and corporate responsibility.

MANAGEMENT APPROACH TO SUSTAINABILITY

Lonpac, a wholly-owned subsidiary of LPI, is a provider of general insurance coverage in Malaysia. Since its founding, the Group has always taken a long-term view in relation to the management of risk and in adopting proactive prudential approach to its business. Sustainability, as a hallmark of prudence, has therefore been a key part of our business philosophy.

As a leading insurer in Malaysia, Lonpac regards its fiduciary and non-obligatory duties to stakeholders as among its most important priorities. We discharge these duties by making insurance products available at fair prices and on equitable terms, by supporting the development of our employees and agents, and by working together with business and regulatory partners to develop the Malaysian insurance industry. In addition, we play an active role in supporting the less fortunate in society as part of our sustainability practice.

Lonpac's sustainability management framework, also known as "Lonpac Cares", breaks down into four key areas:

Sustainability Area	Mapped EES Area	Key Stakeholders
Community Development	Economic/ Social	Communities
Environmental Conservation	Environmental	Environmental Stakeholders
Marketplace Development	Economic/ Social	- Shareholders & Investors - Customers - Legal Entities - Media - Business Partners
Workplace Management	Economic/ Social	Employees and Agents

These four areas comprehensively document the EES impact of our activities and stakeholders who may be affected by these impacts. These four areas are also factors relevant to Lonpac's long-term commercial success. Our aim is to create long-term, sustained value in these four areas and thereby become a positive agent of change in the country. These four areas also delineate our policies and initiatives and otherwise guide our sustainability practice.

Additional details about Lonpac Cares and our initiatives can be found on pages 119 to 131 of this report.

OUR SUSTAINABILITY GOVERNANCE STRUCTURE

Our sustainability practice is overseen by our Sustainability Committee, which was established on 27 June 2016. The role of the Sustainability Committee is to direct, manage and oversee the sustainability activities of the organisation and to report the findings to the Board of Directors. The Board is also represented on the Sustainability Committee as the Chairman of the Sustainability Committee is also a director who sits on the Board. The Chairman of the Sustainability Committee is supported by other members of senior management including the CEO of Lonpac.

The roles of the Sustainability Committee are as follows:

- Developing the Group's sustainability vision, strategy and linkage to long-term business strategies

- Advising the LPI Board on strategies in the area of sustainability and seeking Board endorsement on sustainability matters
- Identifying sustainability risks and opportunities
- Originating policy and initiatives to manage sustainability risks and opportunities
- Overseeing the implementation of policies and initiatives including setting targets and Key Performance Indicators ("KPIs") for initiatives, assessing effectiveness, etc.
- Identifying and implementing the stakeholder engagement process

Roles of the Sustainability Committee

The Sustainability Committee plays a direct role in the implementation of sustainability activities. Different members are tasked to engage with various stakeholders, and also for overseeing initiatives related to their regular function. The Sustainability Committee is responsible for developing initiatives, obtaining Board endorsement, implementing initiatives and measuring the outcomes against KPIs. An outline of the Sustainability Committee's role is set out below:

1. Identifying Material Issues

The Sustainability Committee is responsible for identifying sustainability issues that are material to the organisation. These are issues that have an impact on EES.

2. Liaising with the Board of Directors

The Sustainability Committee is responsible for obtaining Board endorsement of the sustainability vision and strategy. The Sustainability Committee's responsibilities to the Board are as follows:

- Seek out sustainability concerns and feedback from directors.

Bursa Securities requires that sustainability be addressed at all levels of the organisation, including at the level of the Board. The Sustainability Committee is responsible for engaging the Board in deliberating sustainability matters during Board meetings.
- Seek Board approval on sustainability policies and initiatives, including:
 - Identified material EES issues.
 - Policies developed to align sustainability matters with business strategy.

SUSTAINABILITY REPORT

The Board is responsible for endorsing sustainability issues, particularly the vision and strategy of the organisation. The Sustainability Committee will identify the material issues as well as accompanying strategies, and present it to the Board for feedback and endorsement.

3. Report on Sustainability Progress in Terms of Targets and Achievements

The Sustainability Committee is responsible for reporting periodically to the Board all progress on sustainability targets and achievements.

DEVELOPING OUR SUSTAINABILITY VISION AND STRATEGY

Lonpac's sustainability vision and strategy was developed by the Sustainability Committee following discussions with the Board as well as other stakeholders. The strategy was developed to be in line with LPI Group's long-term business goal to be among Malaysia's leading general insurance providers. This is stipulated in our Corporate Mission statement:

"Our primary focus is to provide innovative insurance products supported by customer-centric service excellence. We aim to provide our insured an easy channel for all their insurance needs.

Our brand is representative of the way we conduct ourselves and the approach to organisational development. We aim to create an environment for our people that is fair, caring and accountable.

Our drive is to create value for our stakeholders, anchored to our vision and corporate mission. We strive for sustainability through financial and technical strength based on recognised and proven standards."

Based on the tenets of its business vision, LPI Group has adopted the following sustainability vision statement as part of its sustainability strategy.

"Our sustainability goal is to create sustained value for our key stakeholders including our community, customers, employees and shareholders, through the long-term management of sustainability risks and opportunities, and through our unwavering adherence to good corporate governance.

We remain committed to dispensing our role as an insurance provider in good faith to ensure that we provide sufficient coverage to our customers in their time of need. Finally, we are committed to maintaining our position as a leading insurer in Malaysia, and to ensure that our presence makes a positive difference in the communities where we operate."

KEY ACHIEVEMENTS 2017

In 2017, our focus was placed on strengthening the framework of our sustainability practice in several key areas. Following the review of our materiality matrix developed last year, the Sustainability Committee undertook to revise and review the materiality assessment to make it more comprehensive. Following from this decision, the Sustainability Committee sought wider feedback from stakeholder groups to develop a new materiality matrix. The result of that review is found on page 118 of this report.

Likewise, the Sustainability Committee also decided to widen its breadth of initiatives to better mitigate Lonpac's environmental footprint. The result is a new tree-planting environmental initiative at the Forest Research Institute Malaysia ("FRIM"). Seventy staff participated in the event, planting 31 new trees.

The last year also saw Lonpac implemented its e-Statement service for business partners. Starting September 2017, Lonpac's business partners received digital records of their transactions with Lonpac, which resulted in the reduction of about 100,000 copies of statements each month. Whereas Lonpac issued 1.66 million hardcopy paper statements in 2016, this figure reduced to 1.21 million due in large part to the new e-Statement initiative. This figure is expected to further decrease in 2018 as the e-Statement policy would have been active for the entire year.

Finally, another key achievement in 2017 for us was the completion of the review of some of our sustainability policies, including our Human Resources ("HR") benchmarks. We believe that the review of our policies helps us provide more accurate disclosure of our sustainability initiatives and allow for better comparison with our peers. It was also conducted in recognition of the fluidity of our sustainability impact and that our practice must remain similarly dynamic to keep up with new developments during the year.

SUSTAINABILITY GOALS MOVING FORWARD

The LPI Group recognises that sustainability is an ongoing concern, and should adapt and evolve with changing circumstances. For instance, the Group is embarking on a substantial transformation of its digital strategy allowing for greater sale of insurance products, mobile and online transactions, and digital marketing. We believe that the incorporation of these digital elements will have an impact on our effort to boost insurance coverage in the country, which is part of the nation's overall plan to improve financial inclusivity.

While we have yet to decide whether to start measuring the impact of our digital strategy on financial inclusivity, we are aware that digital is clearly the way forward and will substantially change the insurance landscape. Similarly, the introduction of the new liberalised framework moving some classes of general insurance from the tariff structure will change the dynamics of the insurance business. It is uncertain how liberalisation will affect sustainability elements of our business, e.g. product availability and affordability, but we believe that this will become clear as liberalisation gains greater steam moving forward.

Finally, we will also be reviewing the findings of this Sustainability Report in the coming year to identify areas for improvement. We welcome all comments and suggestions as to how we can further strengthen our sustainability practice. Please direct all correspondence to sustainability@lonpac.com.

Materiality Assessment

In this report, materiality in sustainability terms is not limited to the matters that have significant financial impact on the organisation but also includes consideration of EES impacts that may affect our ability to meet the needs of the present and future generations. LPI Group's Sustainability Report adopts the definition of materiality provided by Bursa Securities. By this definition, sustainability matters are deemed material if they:

- i. reflect an organisation's significant EES impacts; or
- ii. substantively influence the assessment and decisions of stakeholders.¹

Materiality issues were identified by the Sustainability Committee as well as through feedback conveyed by stakeholders via their survey responses. These materiality issues were subsequently ranked by both internal and external stakeholders through an enhanced stakeholder engagement survey.

We have identified nine issues material to us. Each of these initiatives has been grouped under relevant sustainability pillars that manage our EES impact. The table below provides an overview of the material issues and their grouping under our sustainability structure.

EES Pillar	Material Issue	EES Category
Marketplace Development	National Contribution	Economy
	Governance and Responsible Business Conduct	
	Partners' and Agents' Loyalty	
	Responsible Investment	
	Privacy and Data Protection	
	Product Availability and Affordability	
Workplace Management	Employee Development and Welfare	Economy
Community Development	Social Responsibility	Social
Environmental Conservation	Shrinking Our Carbon Footprint	Environment

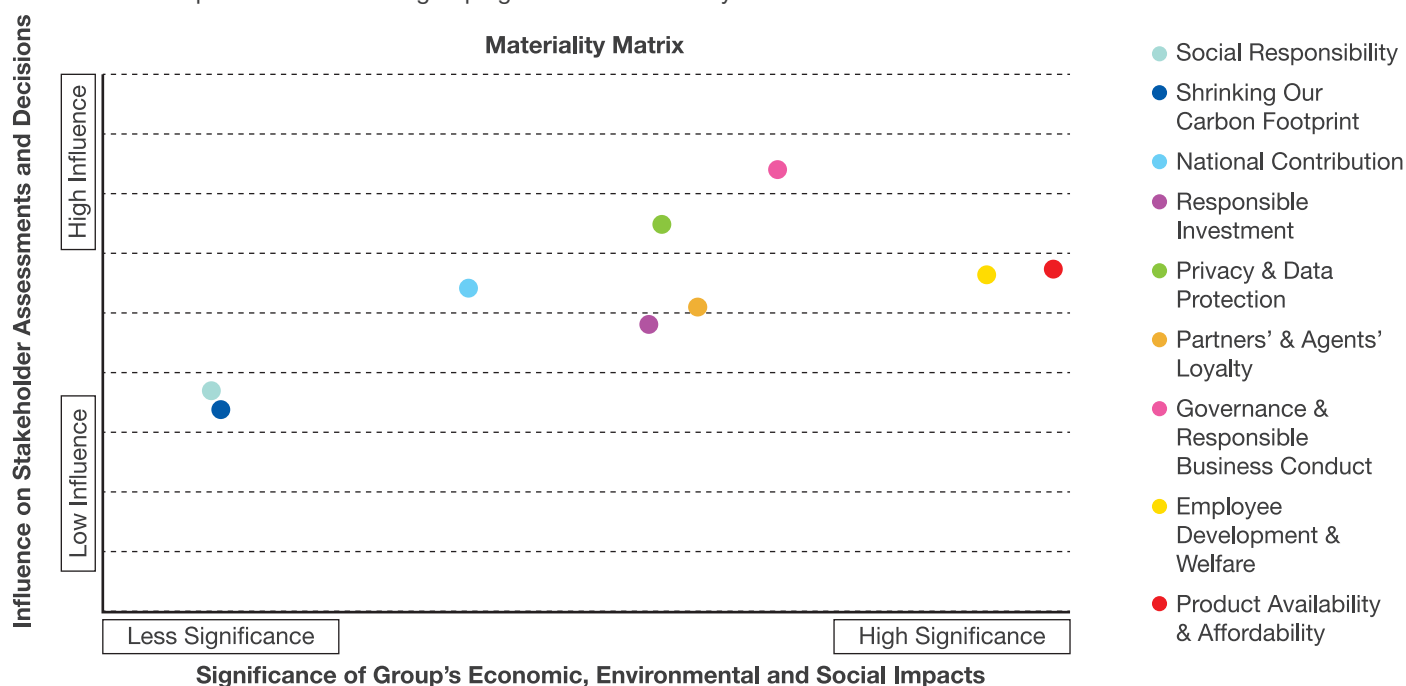
¹ Bursa Malaysia's Sustainability Reporting Guide 2015.

SUSTAINABILITY REPORT

In 2017, Lonpac conducted enhanced stakeholder engagements to seek more comprehensive data from our stakeholder groups. Whereas materiality issues were mainly derived from internal stakeholders who functioned as proxies for external stakeholders, we decided to directly engage with external stakeholders in 2017 through the following methods:

- Requesting walk-in customers to fill materiality surveys
- Issuing questionnaires to business partners including:
 - Adjusters
 - Lawyers
 - Agents and Corporate Clients
- Issuing materiality surveys to shareholders and investors
- Directly engaging with media representatives including research analysts
- Engaging with Lonpac's staff to determine materiality concerns
- Seeking feedback from legal entities including regulators and industry bodies

Following the implementation of our enhanced stakeholder engagements, the relative importance of each material issue has changed in line with the expanded stakeholder grouping. The new materiality matrix is illustrated below:



The survey is performed annually and all key findings are discussed in the Sustainability Committee to determine the necessary actions required.

Stakeholder Identification

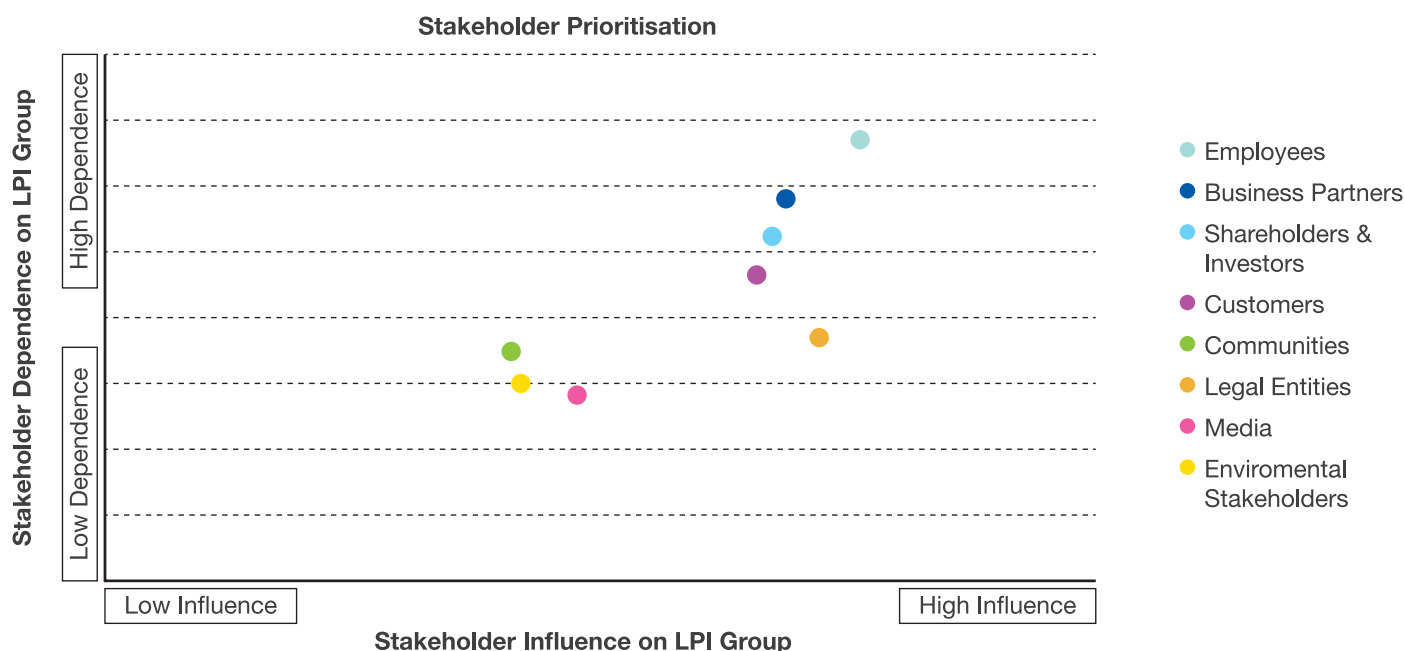
The Sustainability Committee identified eight key stakeholder groups that impact or are directly impacted by our activities. The stakeholder groups have remained largely the same as the previous year, except that the Sales Force stakeholder, which covered agents or corporate clients, has been renamed as Business Partners to also include adjusters and lawyers.

LPI's stakeholder groups are as follows:

- **Employees:** Our employees are the backbone of our operations and are directly responsible for all our business activities.
- **Business Partners:** Our business partners are third-parties who facilitate our business. These include lawyers, adjusters, reinsurance companies, agents as well as other corporate intermediaries.

- **Shareholders & Investors:** These are stakeholders who hold a direct financial stake in LPI Group.
- **Customers:** Customers are the consumers of our insurance products and key to the continued profitability of our Company.
- **Communities:** These are the communities in which we serve and operate, both as an insurance provider and as a member of the community.
- **Legal Entities:** Legal entities include regulatory authorities that oversee the legal framework in which we operate. Notable examples include Bank Negara Malaysia (“BNM”), Bursa Securities and Persatuan Insurans Am Malaysia (“PIAM”).
- **Media:** The media is responsible for communicating the public image of our Company and includes analysts who act as intermediaries between LPI Group and investors.
- **Environmental Stakeholders:** These are organisations that have a vested interest in the protection of the environment.

As with our materiality matrix, we have enhanced our stakeholder prioritisation process to be more inclusive and broader in scope. Whereas stakeholder prioritisation was done mainly by the Sustainability Committee in 2016, we have broadened the scope to include the views of Lonpac’s Head of Departments. The new stakeholder prioritisation matrix is illustrated below:



In addition to annual survey, we maintain constant engagement with our stakeholders throughout the year to ensure that we are promptly notified of any material sustainability issues affecting the Group. Examples of our engagement practices include:

- **Employees:** Human Resource department engages with employees on an ongoing basis to address their needs. Material issues are raised at the Group Human Resource Committee for deliberation.
- **Business Partners:** Business Development staff communicate with the business partners on a regular basis to better understand their needs and concerns.
- **Shareholders & Investors:** Investor relations personnel manage ongoing engagement with the shareholders and

investors to communicate important business updates and to seek feedback about our performance.

- **Customers:** We engage with our customers through formal channels overseen by the Customer Service department. The aim of these engagement sessions is to ensure that we meet all their insurance needs and to better understand their concerns.
- **Communities:** The Corporate Social Responsibility Committee is responsible for ongoing engagement with community groups. Our aim is to determine the best way in which we can contribute to the overall sustainability of our communities.
- **Legal Entities:** Ongoing engagement with the legal entities is managed by the relevant departments in the Group to ensure that we adhere with regulatory requirements and expectations.

SUSTAINABILITY REPORT

LONPAC CARES

Lonpac Cares is LPI Group's sustainability framework addressing EES risks and opportunities. The framework is underpinned by four pillars. These pillars in turn provide the basis and guide for our sustainability initiatives and policies. These four pillars are:

- i. Marketplace Development
- ii. Workplace Management
- iii. Community Development
- iv. Environmental Conservation

Marketplace Development

Lonpac operates within a broader insurance and financial marketplace beyond our dealings with our customers. Within this marketplace, we are subject to regulatory and operational influences from both within and without our local borders. Moreover, as a leading insurance company, we have a responsibility to guide the local development of the insurance sector and we do so through our engagement in industry associations as well as through our engagements with regulators. We are aware that new developments may affect the coverage we provide customers and the way our business model operates, and work towards managing these developments through our Marketplace Development pillar.

Workplace Management

Competition for recruiting and retaining skilled staff and agents is growing steadily, and we now face pressure not only from domestic but also international recruiters. To ensure that we have sufficient skilled personnel, we strive to provide our workforce with competitive and attractive remuneration and incentive packages. Lonpac has also put in place a management succession plan to ensure a constant supply of trained leaders and management professionals that will secure business continuity. Finally, initiatives under this pillar are also focused on developing a safe and productive environment for our staff, agents and customers.

Community Development

The Community Development pillar addresses economic and social risks and opportunities stemming from our presence and engagement with our communities and society. Our business activities put us in close and regular contact with community members. As insurers, we play a particularly important role in helping them get back on their feet during their times of need. Moreover, figures from BNM indicate that Malaysians are generally underinsured with only 35% of them owning some kind of cover. Thus, we believe that we have a role to play in helping the nation reach its goal of financial inclusivity, which includes greater insurance coverage for the population.

Environmental Conservation

While the environmental impact of the insurance industry is relatively low in comparison to other industrial sectors, we recognise that environmental conservation is the responsibility of everyone regardless of the magnitude of impact. Nonetheless, we are committed to doing as much as we can to reduce our environmental impact and to play an active role in raising environmental awareness. We are aware that consequences of climate change have a significant impact on our business and therefore have a vested interest in actively forwarding the goals of environmental conservation and in raising greater awareness of the issues in our stakeholders.

Taken together, these four pillars ensure that our sustainability initiatives are directed at material issues that are most relevant to us as a business and community organisation. The Sustainability Committee is looking at developing headline KPIs for each sustainability area, and these will be reported in future Sustainability Reports.

Marketplace Development

As a leading general insurance provider in Malaysia, our activities involve many stakeholders in the marketplace ranging from customers to regulatory authorities. Our responsibility to the marketplace takes on several different roles depending on the stakeholder. From working together with other insurance providers and the regulators to shape the industry to ensuring that our products and services meet the needs of our customers, Lonpac plays a proactive role in marketplace development to shape a more robust marketplace for all involved.

Six initiatives have been identified under this pillar:

- i. National Contribution
- ii. Governance and Responsible Business Conduct
- iii. Partners' and Agents' Loyalty
- iv. Responsible Investment
- v. Privacy and Data Protection
- vi. Product Availability and Affordability

National Contribution

The success and sustainability of our business depends on the economic and financial health of the country. As an insurer, we play a significant role in maintaining the overall health of the financial system as well as in facilitating commercial and industrial projects. The proper dispensation of our role requires that we maintain a robust level of financial health at all times such that we are able to meet our financial obligations at all times and help maintain the integrity of the Malaysian financial system. We have put in place a robust capital management strategy as well as prudential risk guidelines to ensure that our capital adequacy surpasses stipulated requirements. A discussion of our capital adequacy is available on page 240 of this annual report.

Lonpac also contributes to national development through our role as a jobs creator, an investment asset and a taxpayer. In 2017, we created 63 new jobs of which 90.48% comprised local hires, and paid RM90.4 million in taxes.

Governance and Responsible Business Conduct

LPI Group adheres to a strict code of corporate governance that has seen us received a number of plaudits over the years (please turn to pages 50 to 73 to find our Corporate Governance Overview Statement). Good governance is an essential element of sustainability, and has been embedded throughout all our operations with policies in place stipulating the need for responsible business conduct.

One of the key service benchmarks relating directly to our business conduct is the efficiency and effectiveness of our claims management process. The claims process is an important link within the insurance value chain as claims are generally only initiated when a loss is involved. We strive to provide a positive experience to our customers who depend on us for fair and quick settlement of their claims in their times of need.

The efficiency of our claims is also a key differentiating point allowing us to create greater value in comparison with our competitors. Lonpac is committed to the constant improvement of the claims management process to ensure that we meet customers' demands as quickly and fairly as possible.

We track five different targets in benchmarking our claims management efficiency. The table below is a summary of these benchmarks for the year under review.

SUMMARY OF CLAIMS MANAGEMENT BENCHMARKS FOR 2017				
Sustainability Benchmark	Description	Measurement	Goal	Achievement
Proportion of claims registered to the number of claims settled within 12 months	Measures the efficiency of the claims process	Percentage on the number of claims settled against the number of claims registered	Indicative ratio to exceed 60.00%	63.53% (2016: 60.47%)
Claims productivity ratio	Measures the productivity of claims staff	Percentage of the number of claims settled over the number of claims staff	To achieve a minimum average of 1,250 files settled per staff member	1,395 (2016: 1,388 claims)
Quarterly claims files review	Review of all open/ outstanding claims files to determine status	Whether or not the review exercise was conducted	To conduct the claims review every quarter	Completed exercise for every quarter in 2017
Claims service standard	Measures the claims service standard by the number of customer complaints	To measure the number of complaints received against the number of claims registered	Number of complaints received not exceeding 5% of total number of claims registered	0.05% (2016: 0.11%)
Service providers	Ensures that our service providers comply with regulators' claims settlement guidelines and internal service standards	Conducting review of service providers' performance	To conduct the performance review on a semi-annual basis	Performance of our service providers were reviewed on a half-yearly basis at the Panel Review Committee meetings in 2017

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In addition to benchmarking our claims process, we also conduct regular engagement sessions with the media, analysts and investor representatives to apprise them of our Company's performance. Through these channels we create a transparent communication channel allowing us to communicate our company performance to a wider audience.

Partners' and Agents' Loyalty

We depend on a network of loyal business partners and agents for our operational success as our agents and partners are primarily responsible for servicing clients and generating new business leads. As the front-line staff engaged with customers, they are better positioned to understand the needs of our clients and are able to then help us better understand customer needs.

It is therefore crucial that we retain our stable of partners and agents, especially those with a high degree of competence and experience. Lonpac has introduced a number of incentives such as its annual Masterclub Award for our network of agents to recognise their service to us and to motivate them to maintain their high performance levels.

The Lonpac Masterclub Award was introduced in 2006 to recognise the highest performers within our network of agents. Winners of the award are assessed based solely on the merit of their performance in terms of business profitability and portfolio premium incomes. The Masterclub Award is a token of appreciation to our best agents, and is designed to create friendly and competitive camaraderie among them. The Masterclub Award is presented at our annual agent conventions.

As part of our plan to expand our presence and market share, we have established a KPI of growing our agency force by 10% annually. Meeting this target ensures that our presence in the marketplace is sufficient to market and distribute our products, and ensures that our growth keeps pace with the expansion in the marketplace. We recognise that the increasingly competitive insurance industry is exerting greater demand for skilled and experienced financial practitioners, and we will enhance our recruitment practices to ensure that we do not fall behind.

Meanwhile, we will continue with our policy to conduct regular engagement sessions with our business partners to identify better ways for us to work together. This includes discussions on the marketing and promotion of our markets, streamlining our processes and working together to determine how we can better serve our customers. Examples of our partners include financial institutions, agents, brokers and global insurance partners.

Responsible Investment

LPI Group is committed to responsibly investing the funds that it has at its disposal. As an insurer, we need to maintain a level of stability in our financial position at all times, and hence take careful steps to ensure that our investments do not overstep our prudential limits or expose to any systemic risk.

LPI Group's investments, which are overseen by the Investment Committee, are carefully scrutinised to ensure that the Company's investment policies and strategies are in line with business strategy and within prudential guidelines. They are also subject to the scrutiny of our risk management processes and checked to ensure that they do not pose a systemic risk to the Company as a whole.

Privacy and Data Protection

The prevalence of online access to financial and insurance products has made privacy and data protection a key concern for all financial institutions. The dangers of data breaches and data piracy are not only reputational in nature, but can also put the company at risk of liability for damages resulting from their failure to safeguard confidential data. Additionally, data breaches can also result in a loss of trust of our customers and partners, which could have a devastating impact on our business.

To ensure that our IT systems have the adequate protection against unauthorised data access, the system is assessed annually by a qualified third-party vendor which has been certified by the PCI Security Standards Council. Lonpac's Security Risk Rating typically ranges from Secure to Highly Secure depending on the specific risk assessment.

LPI Group has put a Privacy Policy in place which stipulates the use and storage of personal data. Based on that policy, personal data supplied by our customers can only be used in specific circumstances and only by authorised personnel. We expect our employees and agents to abide by the policy at all times, and violations of the policy can lead to disciplinary action being taken. The full text of our Privacy Policy is available online at https://www.lonpac.com/web/my/privacy_policy_my.

Product Availability and Affordability

We are committed to the principles of financial inclusivity as articulated in BNM's Financial Sector Masterplan. We recognise that we have an obligation to ensure that our products are fairly priced and available to all levels of society. In practice, this translates to the need for a broad range of products that are accessible by the various economic classes in society such that the insurance safety net is available to all.

We have taken this a step further by exploring the possibilities made available through innovative insurance technology ("insuretech"). Insuretech leverages on smart mobile devices and online platforms to make the purchase and management available to anyone with access to the internet. Lonpac is presently transforming its IT backend as well as processes to facilitate the development of insuretech and eInsurance services. This will, in time, give a wider group of Malaysians more convenient access to insurance.

In 2011, the Malaysian insurance industry, together with BNM, introduced the 1Malaysia Micro-Protection Plan, which provides Fire and Personal Accident coverage for as little as RM1.50 and RM3.50 per month respectively. Lonpac is a participant of the programme and functions as a point of sale for the product.

The protection granted by this product ensures that persons and small business owners are given financial support in the unfortunate event of accident involving themselves or their businesses. The sum insured provided by this plan ranges from between RM5,000 and RM50,000 for Fire coverage, and RM20,000 for Personal Accident coverage.

Workplace Management

Building a strong and sustainable talent pool is a key priority of Lonpac's business strategy. In Malaysia, the demand for talent, particularly in the financial industry, has grown substantially in recent years with both local and foreign financial institutions competing for a limited pool of skilled and talented workers. According to a 2015 research paper by the Asian Institute of Finance, 76% of Malaysian employers in the financial services sector reported facing talent shortages.² The same report noted that 72% of employers in the insurance sector faced the same talent issues.

With the entry of new insurers in the market owing to liberalisation and the scaling up of existing insurance companies, the demand for insurance talent has grown considerably and will continue to do so in the foreseeable future. The problem is further exacerbated by the lack of investment in developing local talent, according to BNM. As such, the central bank noted, there is a continuing dependence on foreign talent and on foreign reinsurance companies to handle sophisticated deals.

At Lonpac, we recognise the importance of hiring local talent and more importantly investing in them. For this reason, we have put in place a comprehensive talent development programme, which is underpinned by our Workplace Management sustainability pillar. The pillar outlines five broad areas addressing staffing issues:

- i. Employee Recruitment and Retention
- ii. Diversity
- iii. Employee Welfare and Development
- iv. Employee Health and Well-Being
- v. Employee Rights and Code of Conduct

Employee Recruitment and Retention

Lonpac plays an important role as an employer, creating jobs throughout the entire value chain of the insurance industry. Our hires range from specialised technical experts to front-line personnel responsible for communicating directly with our customers. Our initiatives in this area contribute to gross domestic product growth and also provide valuable training and development opportunities for employees.

² Asian Institute of Finance, *Talent Gaps in the Financial Services Industry*, 2015.

SUSTAINABILITY REPORT

The table below provides an overall summary of our contributions in these areas for 2017.

Area	Sustainability Value (Objectives)	Indicator	Measurement/ Calculation	Target	Progress
Recruitment Impact on Society	Creating job opportunities and economic wealth	Job opportunities created this year	Total number of recruitments = 63 jobs (2016: 69)	To ensure continuous recruitment growth in tandem with the Company's growth	Recruitment and job creation depends on the efforts of the LPI Group to grow its business.
	Percentage of jobs awarded to locally qualified candidates = 57 out of 63 jobs provided = 90.48% (2016: 85.5%)		To develop local insurance talent		
	Contributing to the Government's and industry's efforts to increase the number of skilled insurance professionals in Malaysia	Internship Programmes	Training hours/ time spent on interns = Total training hours/ number of interns = 508 hours per intern (2016: 732 hours per intern) = 2.4 months per intern (2016: 4.3 months per intern)	To ensure continuous growth in the Company's internship programmes from year to year	

Lonpac's recruitment policy is aimed at recruiting the right complement of staff to support our business activities. To develop a sustainable talent pool, we have implemented initiatives in several key areas of the talent management process including staff composition and staff retention. We have identified two headline targets for recruitment and retention for 2017 as detailed below:

Target Description	Target	Achievement	Rationale
Recruiting and developing staff to ensure a pool of competent and qualified personnel to support business operations	60% of staff to hold Bachelor's Degrees or appropriate professional qualification	45.83% (2016: 45.57%)	Lonpac aims to ensure that its customers and business processes are served by competent and qualified personnel. While academic qualifications are not the only determinant proficiency, having a majority of employees with tertiary and professional qualifications help us establish a benchmark of talent.
Staff retention as measured by the staff attrition rate	Fewer than 10% of total staff annually	5.34% (2016: 5.20%)	We have set an attrition target to benchmark the quality of our HR policies.

Lonpac places great stock in employee loyalty and dedication as part of its employment culture. To recognise our employees' long-term contributions to Lonpac, long-serving staff receive Service Recognition Awards upon reaching specific milestones. The Award serves as a token of appreciation in recognition of their loyalty and continued service.

The table below provides a summary of the number of recipients over the past 10 years.

Years of Service	Number of Recipients									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
40 years	–	–	–	1	1	2	–	–	–	–
35 years	4	–	1	1	–	–	–	–	2	3
30 years	–	–	–	4	4	4	5	1	–	1
25 years	4	5	2	1	2	3	1	2	3	7
20 years	4	1	2	4	10	16	24	8	15	18
15 years	16	26	9	15	23	18	9	14	13	18
10 years	19	10	17	15	25	27	18	22	25	18
Total	47	42	31	41	65	70	57	47	58	65

Agent Recruitment and Training

In addition to the employment of full-time employees, Lonpac recruits agents to distribute and market our insurance products. The recruitment of agents is another way in which we generate economic wealth and create employment opportunities.

Lonpac's network of agents remains its most important distribution channel accounting for a significant portion of gross written premium. While they are not employees proper, we expect our agents to conduct themselves with the highest professionalism, and to possess the qualifications and skills necessary to act on Lonpac's behalf. To support the professional development of its agency force, Lonpac conducts regular training and development workshops for our agents.

These workshops cover a wide range of topics from customer service to product-specific technical courses. In 2017, we conducted 136 training workshops for our agents throughout the country. These training sessions covered a variety of topics from training on new products to operational and process improvements.

In 2017, Lonpac spent RM1.32 million on its Malaysian agents for training and development purposes.

Diversity

Lonpac views the ethnic and religious diversity of Malaysia as a feature that is beneficial to business. The diversity of views and opinions makes Malaysia a more robust and resilient country, and we are intent on reflecting that diversity in our workforce. As with the country, we believe that a diverse workforce allows us to consider on various perspectives and viewpoints, and weight them against each other to problem-solve and brainstorm new innovations.

A diverse base of perspectives also helps us better serve our customers who also come from diverse backgrounds. Diversity, therefore, drives the sustainability of our business as well as of our marketplace. Correspondingly, a diverse workforce helps us to better engage with our diverse marketplace thereby helping us better support and meet our customer needs. Building a diverse workforce is therefore a key sustainability goal for us, and its principles are codified in our Workplace Diversity Policy.

Our Workplace Diversity Policy makes a number of specific stipulations in the areas of:

- **Recruitment:** individuals are to be employed based on the Group's requirements and needs, and matched to individual work experiences and qualifications. No consideration of race, religion or gender is to be made during the hiring process.
- **Operations:** Lonpac expects its officers to make conscious efforts to be inclusive in every activity held within the Group. This includes the composition of Management Committees as well as of other sub-groups.

SUSTAINABILITY REPORT

In forwarding the goals stipulated in our Workplace Diversity Policy, we have assigned a number of targets designed to measure the diversity of our workforce in 2017.

Target Description	Target	Achievement	Rationale
Diversity of staff force as measured by the gender ratio	To have no fewer than 30% of the staff from either gender	Male to Female ratio 35:65 (257 male employees: 474 female employees) (2016: 35:65)	Lonpac does not discriminate against gender during the recruitment process as the Company recognises the importance of having equal representation from both genders. While we strive for balance, we do not make recruitment decisions based on gender.
Gender diversity in leadership positions	To have no fewer than 30% of Senior Management and Supervisory positions filled by women	Percentage of women leaders in: Senior Management Positions: 40.74% (11 out of 27 places) (2016: 41.18%) Supervisory Positions: 63.99% (382 out of 597 places) (2016: 37.04%)	Lonpac is committed to the empowerment of women in the workforce and provides equal opportunities to women to lead and be promoted based solely on merit.
Mothers returning to the workforce	To encourage at least 75% of mothers at the management levels to return to work following maternity leave	100% (2016: 100%)	Lonpac is committed to helping women balance their roles as both employee and mother. Where possible, we accommodate the needs of mothers to provide them with remote access during and after their maternity leave. We are also committed to the principle of non-discrimination, and mothers returning to work from maternity leave are given the same duties and responsibilities as before.

Employee Welfare and Development

Lonpac views employee welfare and development as a key tool in helping the company retain its competitive edge. By helping our employees reach their full potential, we not only optimise their productivity but also help them reach their personal and professional ambitions. Lonpac measures the impact of its employee welfare and development initiatives through key headline KPIs.

The targets and benchmarks for 2017 are detailed below.

Target Description	Target	Achievement	Rationale																										
Comprehensive training and development opportunities for all employees	1. To have at least 60% of the staff population attend formal training in any given year 2. For all employees to receive at least an average of two days or 16 hours of formal training and development annually	62.93% of all employees attended training (2016: 62.03%) Total hours of training per employee = 17 hours (2016: ~13 hours)	Lonpac's Heads of Department are expected to ensure that their employees are sufficiently trained and developed as part of their annual assessment so that all employees are given the opportunity to develop and progress in the organisation.																										
Professional development and qualification of employees at manager levels and above	At least 50% of employees at manager level in core operations are professionally qualified or are actively pursuing professional qualification	<table><thead><tr><th rowspan="2">Core Operations</th><th colspan="2">% Qualified</th></tr><tr><th>2017</th><th>2016</th></tr></thead><tbody><tr><td>Total Core</td><td>36%</td><td>31%</td></tr><tr><td>Underwriting</td><td>50%</td><td>50%</td></tr><tr><td>Claims</td><td>50%</td><td>50%</td></tr><tr><td>Accounts</td><td>78%</td><td>78%</td></tr><tr><td>Marketing/ Business Development</td><td>27%</td><td>20%</td></tr><tr><td>Actuarial/ Enterprise Risk Management/ Pricing</td><td>100%</td><td>100%</td></tr><tr><td>IT</td><td colspan="2">– not applicable –</td></tr></tbody></table> * The IT Department is excluded from this calculation as the training of its personnel is specific to Company needs and the type of technology implemented	Core Operations	% Qualified		2017	2016	Total Core	36%	31%	Underwriting	50%	50%	Claims	50%	50%	Accounts	78%	78%	Marketing/ Business Development	27%	20%	Actuarial/ Enterprise Risk Management/ Pricing	100%	100%	IT	– not applicable –		Lonpac expects its leaders to possess the right qualifications and skills to lead their employees. Towards this end, senior officers at the management level are expected to hold or take steps to acquire their professional qualification. To facilitate the acquisition of professional qualification, Lonpac has implemented a sponsorship programme for core operational roles. Employees are granted full sponsorship in seeking professional qualifications in the areas of insurance, accounting, IT and actuarial studies. At the same time, we also nominate staff to participate in the Malaysian Insurance Institute's Accelerated Professional Enhancement Programme ("APEP"). Staff participating in the programme are given 1.5 days of paid study leave each week for a period of two years. Four Lonpac staff are participating in the programme.
Core Operations	% Qualified																												
	2017	2016																											
Total Core	36%	31%																											
Underwriting	50%	50%																											
Claims	50%	50%																											
Accounts	78%	78%																											
Marketing/ Business Development	27%	20%																											
Actuarial/ Enterprise Risk Management/ Pricing	100%	100%																											
IT	– not applicable –																												
Staff productivity levels as measured by gross written premium income	To increase annual productivity levels measured in terms of gross written premium income per employee	9.5% in productivity year-on-year (2016: -0.15% in productivity year-on-year)	Staff productivity is measured in terms of gross written premium per employee. However, this is not the only benchmark used as our employees also play key ancillary roles that do not directly contribute to premium income. The productivity of our employees fell marginally in 2016 following our recruitment drive. The productivity decrease of 0.15% had a negligible impact on our business operations. Productivity levels normalised the following year growing 9.5%.																										

In 2017, Lonpac spent RM0.71 million on training and development for its full-time Malaysian employees.

SUSTAINABILITY REPORT

Employee Health and Well-Being

Employees' safety and well-being is one of our foremost concerns. We are committed to providing our staff with a safe workplace environment conducive to productivity, and to ensuring that they have the proper training and equipment to carry out their roles safely. Health and safety is administered primarily by the Occupational Safety and Health ("OSH") Committee.

Health and safety targets and benchmarks for 2017 are detailed below.

Target Description	Target	Achievement	Rationale
Providing a safe working environment for employees	Work towards ensuring zero accidents or injuries in the workplace or office area Securing all offices with security doors with access control	Reported accidents and injuries at: – Head Office: 0 (2016: 0) – Branches: 0 (2016: 0) All offices have security doors with access control	Keeping our employees safe from accidents or injury is a basic responsibility of any employer. The OSH Committee investigates and documents every accident or injury occurring in the workplace and updates safety procedures when necessary. The implementation of security doors with access control at all our offices also helps ensure that only authorised persons have access to the office and staff personnel at all times.
Outfitting field employees with necessary Personnel Protective Equipment ("PPE")	To outfit all risk surveyors and dispatch personnel with appropriate PPE	All personnel provided with appropriate equipment	Our employees are occasionally required to be on-site to consult with clients or to inspect equipment and premises. These field employees are given appropriate training for the handling of equipment as well as standard operating procedures expected of them. These are outlined in a number of references and guides that are readily available to our staff.
Ensuring all offices observe OSH requirements and equipment requirements	All offices must meet with OSH safety requirements and standards	All offices meet requirements	Lonpac's offices and branches are checked every quarter to ensure that they observe OSH safety requirements and standards. The checks are undertaken by the OSH committee, which examines the following items: - Worksite General Safety - First Aid Kit - Fire Extinguisher - Exit Routes - Walkways - Environmental Conditions - Electrical - Machine Guarding - Security

Target Description	Target	Achievement	Rationale
Ensuring all offices observe OSH requirements and equipment requirements (CONT'D.)			– Equipment – Office Furniture – Floors Offices must display Lonpac's OSH Policy Statement and display an Emergency Evacuation Route Map at every floor.
Employee medical cover	Provide medical coverage for all staff and their dependents. As at 31 December 2017, total medical costs totalled 0.28% of LPI's Profit Before Tax, as compared to 0.17% in 2016.		Lonpac provides medical coverage to all our employees and family members to give them a safety net in the event of poor health or accidents. Our policy of extending coverage to family members also ensures that none of our employees will be burdened by the medical costs incurred by their loved ones.

In addition to the safety and security of the workplace, Lonpac also conducts events together with partners to educate and promote health awareness among staff. We host at least one health event each quarter and at least one office-wide exercise programme annually.

Further supporting our efforts to build relationships between our employees is the Lonpac Sports Club, which is an employee-focused social club within Lonpac. The Sports Club's activities typically involve physical activity including team and individual sports, and also family-oriented activities.

Finally, Lonpac also plays a role in helping our employees build better lives by offering special interest rate for housing loans, interest subsidies on housing and vehicle loans as well as motor insurance coverage. These loans help our employees build meaningful lives for themselves and for their families. At least 700 loans worth over RM85 million have been disbursed to our employees since 1996. A further 142 vehicle loan interest subsidies were granted to staff since 2014.

Employee Rights and Code of Conduct

Lonpac has strict policies in place ensuring that our employees conduct themselves with the highest levels of professionalism and ethics. As an insurance provider, our relationship with our customers is built on a foundation of trust, and our employees, as our representatives, must uphold that trust in their conduct. Towards that end, we have in place a number of codes and policies to guide employee behaviour including:

- Code of Conduct
- Code of Ethics
- Whistleblowing Policy
- Harassment Policy
- Grievance Procedures

These documents are available to all employees in the Company's Document Management System.

SUSTAINABILITY REPORT

Community Development

Lonpac operates within the context of various communities which contribute directly to our success as a business and organisation. We therefore have an obligation to give back to those communities and help them become more sustainable entities partly in recognition of their contributions to us. We have worked on long-term initiatives under the heading of CSR in the past and we have integrated these initiatives into our sustainability framework.

Empowering Our Communities

Lonpac believes that it is obliged to help less fortunate Malaysians achieve their full potential in becoming productive and beneficial members of society. We therefore commit a substantial proportion of our charitable giving to organisations that actively seek to better the lives of persons facing obstacles and challenges in their daily lives, and to organisations dedicated to nurturing young persons.

Our key initiatives in 2017 are as follows:

1. **Lonpac E-Assist Charity Golf Tournament:** The annual charity golf tournament was held at Kota Seriemas Golf & Country Club, Nilai, Negeri Sembilan. This charity event was held with the aim of raising fund for Dual Blessing, a centre for persons with disabilities. All proceeds from the green fees amounting to RM32,000 were donated to Dual Blessing.
2. **Seri Mengasih Heroes Run 2017:** Lonpac contributed RM20,000 towards Seri Mengasih Heroes Run 2017 which was organised to raise funds for the operations of Seri Mengasih Centre, a special developmental centre for the intellectually and developmentally disabled in Kota Kinabalu, Sabah. It provides a comprehensive range of training programmes for the intellectually and developmentally disabled, as well as for their families.

In 2017, Lonpac held its regular annual community-focused events, which include:

1. **Annual Blood Donation Campaign:** Lonpac staff donated 64 units of blood to the National Blood Centre ("Pusat Darah Negara"). We are strong supporters of this event as we recognise the importance of having this vital resource readily available in our blood bank.

2. **Encouraging Student Development:** Two of our mainstay programmes is the sponsorship of an annual Chinese Essay Writing Competition and Newspaper Sponsorship programmes in Melaka. These programmes, organised in collaboration with The China Press, encourage students to cultivate essay writing skills and develop strong reading habits. A total of 248 students from 58 Chinese schools in Melaka participated in the competition, while eight primary schools were the beneficiaries of the Newspaper Sponsorship programme in 2017.

3. **Charitable Donations:** LPI Group donates to various organisations that promote healthy living, innovation and other positive values. In 2017, we made a number of contributions towards sports development.

We view our CSR programmes as a platform to empower and enrich our communities and, by doing so, give back to them as a way of showing our appreciation for their continued support. The community not only functions as our customers, but are also our employees, our business partners and other intermediaries who play a vital role in contributing to our success.

Environmental Conservation

While Lonpac's impact on the environment is relatively small compared to companies involved in other industries, we recognise that we have a role to play in minimising our impact where possible and to act as a role model for our staff and others in society. Our environmental impact primarily takes on two forms—in terms of our energy usage and in terms of our paper use. However, our efforts to go digital with our processes have helped to mitigate our impact.

In 2017, we reduced the amount of paper used to print statement of accounts by an estimated 27% by initiating our e-Statement service for our business partners. This translates to a reduction of approximately 100,000 copies of statement of accounts each month comprising two or more sheets of paper.

In addition, we have implemented our Electronic Credit Payment (“ECP”) system for our outgoing payments. The use of ECP has reduced the usage of cheques, which translates into further paper savings as well as more efficient means of transferring funds. The table below provides an overview of our payment types.

Mode	2017		2016	
	No. of Records	%	No. of Records	%
ECP	142,008	98	128,015	97
Cheque	2,939	2	4,562	3

Other initiatives, such as making digital Certificates of Insurance (“CI”) and other policies available to our clients are aimed at helping us reduce our paper usage over the long term. Lonpac’s paper usage in 2017 is set out in the table below:

Paper Usage (Lonpac Headquarters)	2017	2016	% Change
Paper Volume (Reams)	36,775	32,967	11.6%
Number of Policies Written (’000)	1,685	1,565	7.7%
Ratio (Reams per 1,000 Policies Written)	21.82	21.07	0.75%

The data shows that paper usage in 2017 increased as compared against the previous year, both in terms of the number of reams used as well as a ratio to the number of policies written. However, we note that 0.75% increase in the ratio of paper-to-policies-written is substantially lower than the absolute growth in the number of policies written (7.7%) thereby suggesting that paper use has nevertheless moderated.

While paper usage does fluctuate from year to year, we expect the implementation of our paperless policies and the intensifying digitisation of our processes to reduce paper usage over the long term notwithstanding the increase in 2017. We will monitor the situation closely over the next few years to ensure a steady reduction in our paper usage.

In addition to our policies, we actively encourage our employees to be more environmentally minded, and continued our regular observation of Earth Hour on 25 March 2017 where non-essential electric lights were switched off for one hour.

In addition, Lonpac also held its inaugural Tree Planting Event at the FRIM on 18 September 2017. The aim of the event is to promote awareness of green conservation with 70 staff participating in the event. Staff were briefed by FRIM on the proper way of holding and planting the trees. In total, 31 trees were planted and the Company was awarded a Tree Planting plaque by FRIM.

MOVING FORWARD

The LPI Group recognises that sustainability is an ongoing and evolving practice, and we strive to enhance our practices to be in line with the guidelines provided by Bursa Securities. There remains work to be done on the reporting framework, particularly in assessing and quantifying the impact of our business activities on EES. Notwithstanding our efforts so far, our aim is to bring greater maturity and depth into our sustainability framework to provide greater disclosure in future reports.

One change that we have started implementing in Lonpac is the transformation of our business into a digital insurance company. The disruption introduced by new innovative insurance and financial technology has started to fundamentally change the traditional insurance model and we must adopt digital into our culture if we are to remain relevant. As we are still at the early stages of executing our digital strategy, it has not been incorporated into this sustainability report, but we believe that digital will be a key sustainability factor for us in the years to come.

Nevertheless, the Sustainability Committee believes that the amount of effort and dedication showed by all employees—from senior management to line employees—have shown a real desire to improve on our sustainability footprint. In this year’s report, we expanded our stakeholder engagement processes to be more inclusive, and we aim to further refine this process in future reports.

CALENDAR OF SIGNIFICANT EVENTS

3-6 MARCH

Agency Convention 2017
Danang, Vietnam



16-17 MARCH

Junior Officers' & Officers' Seminar
Thistle Hotel, Port Dickson



21 MARCH

56th Annual General Meeting
Shangri-La Hotel, Kuala Lumpur

CORPORATE & AWARDS

22-28 MARCH

Managers' Conference
Chengdu, China



7-9 APRIL

Agency Convention 2017
Phuket, Thailand

15-20 APRIL

Agency Convention 2017
Xian & Luoyang, China

10-17 MAY

Agency Convention 2017
Norway & Sweden

18-20 MAY**Executives' Seminar**

Swiss Garden Beach Resort,
Kuantan, Pahang

22 MAY

Lonpac was conferred The
BrandLaureate Most Sustainable Brand
Awards 2016-2017

– General Insurance

The Majestic Hotel,
Kuala Lumpur

**20-22 JULY****Senior Executives' Seminar**

Ramada Hotel, Melaka

10-12 AUGUST

Assistant Managers' & Deputy
Managers' Seminar

Swiss Garden Damai Laut, Lumut, Perak

**21 AUGUST**

LPI was conferred with
Gold Award on Highest
Growth in Profit After Tax
Over Three Years and Silver
Award on Highest Returns to
Shareholders Over Three Years
Grand Hyatt, Kuala Lumpur

**29 NOVEMBER**

Lonpac was conferred Majikan Terbaik
Wilayah Persekutuan Kuala Lumpur 2017
by Kumpulan Wang Simpanan Pekerja
Concorde Hotel, Kuala Lumpur

6 DECEMBER

LPI received recognition in the MSWG – ASEAN Corporate Governance
Recognition 2017

- Excellence Award for Overall Corporate Governance & Performance (3rd in Overall Category)
- Industry Excellence Award – Financial
- Excellence Award for Long-Term Value Creation

The Majestic Hotel, Kuala Lumpur



CALENDAR OF SIGNIFICANT EVENTS

COMMUNITY & CUSTOMER RELATIONS

17 MAY

Blood Donation Campaign
Lonpac's Head Office, Kuala Lumpur

27 AUGUST

Lonpac jointly organised an Essay Writing
Competition with The China Press Bhd
The Shore, Melaka

15 AUGUST

Lonpac E-Assist Charity Golf
Kota Seriemas Golf & Country Club,
Nilai, Negeri Sembilan

13 SEPTEMBER

Stress Management Talk
Lonpac's Head Office, Kuala Lumpur

STAFF RELATIONS

14 APRIL

Jungle Walk
Ketumbar Hill, Cheras

6 MAY

Lonpac's 55th Anniversary Dinner
Sunway Resort Hotel & Spa, Petaling Jaya



29-30 JULY

Lonpac "The Reel Fun
Hunt" 2017
The Wembley, Penang

18 SEPTEMBER

Tree Planting
Forest Research Institute Malaysia (FRIM)



1-4 NOVEMBER

Sports Club Trip I
Ho Chi Minh City, Vietnam

24 NOVEMBER

Jungle Walk
Bukit Putih, Cheras

26 NOVEMBER – 1 DECEMBER

Sports Club Trip II
Chubu, Japan



FINANCIALS

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ANALYSIS OF THE FINANCIAL STATEMENTS

Analysis of the Statement of Financial Position

	2017 RM'mil	2016 RM'mil	Increase/ (Decrease)	
			Amount RM'mil	%
Assets				
Plant and equipment	17.1	13.0	4.1	31.5
Investment properties	27.3	27.9	(0.6)	(2.2)
Investment in associated company	26.9	26.8	0.1	0.4
Available-for-sale financial assets	927.4	889.8	37.6	4.2
Held-to-maturity financial assets	219.3	243.2	(23.9)	(9.8)
Reinsurance assets	692.8	685.0	7.8	1.1
Loans and receivables (excluding insurance receivables)	1,419.3	1,256.7	162.6	12.9
Insurance receivables	156.4	150.7	5.7	3.8
Deferred acquisition costs	33.7	30.5	3.2	10.5
Cash and cash equivalents	294.4	332.5	(38.1)	(11.5)
Total Assets	3,814.6	3,656.1	158.5	4.3
Total Equity	1,920.9	1,837.3	83.6	4.6
Liabilities				
Insurance contract liabilities	1,636.4	1,609.5	26.9	1.7
Deferred tax liabilities	1.0	0.9	0.1	11.1
Finance lease liabilities	0.9	-	0.9	>100.0
Insurance payables	121.9	79.8	42.1	52.8
Other payables	110.8	105.4	5.4	5.1
Tax payables	22.7	23.2	(0.5)	(2.2)
Total Liabilities	1,893.7	1,818.8	74.9	4.1
Total Equity and Liabilities	3,814.6	3,656.1	158.5	4.3

Total Assets

As at 31 December 2017, the Group maintained a strong balance sheet with total assets stood at RM3,814.6 million, an increase of 4.3% or RM158.5 million over the previous financial year. The total assets growth in 2017 was mainly attributed by the increase in loans and receivables and available-for-sales financial assets. The increase was primarily driven by the strong profit registered in 2017 on the back of the growth in gross premium income of 11.2% to RM1,421.3 million.

Plant and Equipment

The Group's plant and equipment increased by RM4.1 million when compared to the previous financial year. The increase was mainly due to the acquisition of assets during the year.

ANALYSIS OF THE FINANCIAL STATEMENTS

Investment Properties

The investment properties of the Group decreased by RM0.6 million to RM27.3 million from RM27.9 million registered in 2016. The decrease was due to the changes in foreign exchange rate. The investment properties were revalued in accordance with the revaluation report issued by the external independent valuer.

Investment in Associated Company

The Group's investment in associated company is in respect of its investment in Campu Lonpac Insurance Plc ("Campu Lonpac"), where the Group has a 45% interest in the company. The Group records its investment in the shares of Campu Lonpac using the equity method. The investment in associated company increased to RM26.9 million in 2017 from RM26.8 million in the previous year as a result of profit generated during the year however has partly offset by the changes in exchange rate. The Group's share of the profit after tax from this associated company for the current financial year ended 31 December 2017 was maintained at RM2.4 million.

Available-for-Sale Financial Assets

The Group's holding of available-for-sale financial assets amounting to RM927.4 million consist mainly of blue-chip stocks that have good and consistent dividend payouts and low risk income funds. The available-for-sale equities investment increased by 4.2% or RM36.8 million to RM919.8 million from RM883.0 million in 2016 resulted from the increase in fair value of the investment. The value of investment in unit trust increased by 1.7% or RM0.1 million to RM6.0 million from RM5.9 million in 2016. Whilst the value of investment in Real Estate Investment Trust (REITs) increased slightly to RM1.0 million from RM0.9 million in 2016. During the year, the Group invested RM0.6 million in Exchange Traded Fund (ETF) with the aim of generating a steady stream of long term dividend income.

Held-to-Maturity Financial Assets

The Group's held-to-maturity financial assets consist of government guaranteed loans and corporate debt securities which are mainly held for yield and liquidity purposes. The held-to-maturity investments decreased by RM23.9 million or 9.8% to RM219.3 million from RM243.2 million in 2016 mainly due to maturity of Malaysian government securities and corporate debt securities during the year.

Reinsurance Assets

As at 31 December 2017, the reinsurers share of provision for outstanding claims and provision for unearned premium (Reinsurance assets) increased by RM7.8 million or 1.1% to RM692.8 million from RM685.0 million in 2016.

Loans and Receivables (Excluding Insurance Receivables)

The Group's loans and receivables as at 31 December 2017 are largely comprised of fixed deposits placed with licensed financial institutions with maturities above 3 months, staff loans and other receivables. The Group's loans and receivables increased by RM162.6 million to RM1,419.3 million from RM1,256.7 million in 2016 mainly due to the placement of fixed deposit with maturity more than 3 months which increased by RM161.7 million to RM1,286.3 million from RM1,124.6 million in 2016. Other receivables increased by 5.5% or RM5.2 million to RM98.9 million from RM93.7 million in 2016. The increase was mainly due to the increase in other receivables, deposit and prepayment by RM4.3 million to RM12.7 million from RM8.4 million in 2016 and income due and accrued by RM3.4 million to RM27.0 million from RM23.6 million in 2016. Staff loans decreased by 10.9% or RM4.2 million to RM34.2 million from RM38.4 million in 2016 and amount due from Malaysian Motor Insurance Pool decreased by 4.1% or RM2.5 million to RM59.2 million from RM61.7 million in 2016.

Insurance Receivables

In tandem with the growth in gross premium income, the Group's insurance receivables increased by 3.8% or RM5.7 million to RM156.4 million as at 31 December 2017 as compared to 2016.

Deferred Acquisition Costs

The Group's deferred acquisition costs consist mainly of commissions to agents and brokers increased by RM3.2 million or 10.5% to RM33.7 million as compared to 2016. The increase is in tandem with the growth in gross written premiums.

Cash and Cash Equivalents

The Group's cash and cash equivalents are made up of cash in-hand and balances with banks, fixed deposits placed with licensed financial institutions with maturities of 3 months or less and highly liquid money market unit trusts fund. The Group's cash and cash equivalents decreased by RM38.1 million or 11.5% to RM294.4 million from RM332.5 million in 2016. The decrease was mainly due to the lower fixed deposits placements with maturities of three months or less. The fixed deposit placements with maturities of three months or less decreased by 27.3% or RM83.3 million to RM220.9 million from RM304.2 million in 2016. During the year, the Group has invested into the liquid money market unit trusts fund amounted to RM51.4 million.

Total Liabilities

The Group's total liabilities increased by 4.1% or RM74.9 million to RM1,893.7 million from RM1,818.8 million in 2016. The increase was primarily due to the higher provision of unearned premium and outstanding claims, insurance payables and other payables. Total insurance contract liabilities accounted for 86.4% or RM1,636.4 million of the Group's total liabilities, of which RM920.8 million related to the provision for outstanding claims and RM715.6 million to provision for unearned premium.

Insurance Contract Liabilities

The Group's insurance contract liabilities consist of gross provision for outstanding claims and gross provision for unearned premium. Total insurance contract liabilities increased by RM26.9 million or 1.7% to RM1,636.4 million from RM1,609.5 million in 2016. The increase amount of RM26.9 million was attributed to provision for unearned premium reserves which increased by RM39.8 million partly offset by the decrease in provision for outstanding claims by RM12.9 million.

Insurance Payables

The Group's insurance payables increased by 52.8% or RM42.1 million to RM121.9 million from RM79.8 million in 2016. The increase was mainly due to a security deposit of RM44.2 million was retained during the year in respect of a long term policy ceded to a foreign reinsurer.

Other Payables

The Group's other payables increased by 5.1% or RM5.4 million to RM110.8 million from RM105.4 million in 2016. The increase was mainly due to the cash collateral deposits received from the policyholders.

Shareholders' Equity

The Group's shareholders' equity as at 31 December 2017 increased by 4.6% or RM83.6 million to RM1,920.9 million from RM1,837.3 million in 2016 after the payment of dividends amounting to RM272.2 million (consist of RM182.6 million second interim for financial year 2016 and RM89.6 million first interim for financial year 2017) during the year, with an encouraging return on equity of 16.3%. The growth was the result of another year of strong net profit of RM313.8 million achieved for the year 2017. Accordingly, the Group's retained earnings rose by 5.5% or RM41.6 million to RM800.0 million from RM758.4 million in financial year 2016. The Group's net tangible asset per share increased to RM5.79 as compared to RM5.53 as at the end of financial year 2016.

ANALYSIS OF THE FINANCIAL STATEMENTS

Analysis of the Statement of Profit or Loss

	2017 RM'mil	2016 RM'mil	Increase/ (Decrease)	
			Amount RM'mil	%
Operating revenue	1,470.6	1,378.9	91.7	6.7
Gross written premium	1,421.3	1,278.3	143.0	11.2
Change in unearned premium reserve	(40.7)	11.7	(52.4)	(447.9)
Gross earned premium	1,380.6	1,290.0	90.6	7.0
Gross written premium ceded to reinsurers	(553.8)	(506.7)	47.1	9.3
Change in unearned premium reserve	23.4	(16.0)	39.4	246.3
Premium ceded to reinsurers	(530.4)	(522.7)	7.7	1.5
Net earned premium	850.2	767.3	82.9	10.8
Investment income	90.0	88.9	1.1	1.2
Realised gains and losses	2.9	150.3	(147.4)	(98.1)
Fair value gains and losses	-	(2.3)	2.3	>100.0
Commission income	118.6	108.9	9.7	8.9
Other operating income	7.9	8.0	(0.1)	(1.3)
Other income	219.4	353.8	(134.4)	(38.0)
Net claims incurred	(327.7)	(294.2)	33.5	11.4
Commission expense	(162.8)	(147.0)	15.8	10.7
Management expenses	(177.8)	(163.4)	14.4	8.8
Other expenses	(340.6)	(310.4)	30.2	9.7
Operating profit	401.3	516.5	(115.2)	(22.3)
Finance cost	-	-	-	-
Share of profit after tax of equity accounted associated company	2.4	2.4	-	-
Profit before tax	403.7	518.9	(115.2)	(22.2)
Tax expense	(89.9)	(81.7)	8.2	10.0
Net profit for the year	313.8	437.2	(123.4)	(28.2)

Despite the challenging economic environment and a highly competitive market, the LPI Group continued to perform well, delivering another strong set of results for the financial year ended 31 December 2017. The LPI Group's revenue grew by 6.7% or RM91.7 million to RM1,470.6 million compared to RM1,378.9 million in 2016. The Group's profit before taxation decreased by RM115.2 million or 22.2% to RM403.7 million from RM518.9 million in 2016 mainly due to the non-recurring gains of RM150.4 million from the sale of equity investment in 2016. The Group profit before tax for 2016 would be RM368.5 million if it was adjusted to exclude the one-off realised gains of RM150.4 million. This translates to a RM35.2 million or 9.6% increase in Group profit before tax for 2017. The remarkable performance was driven by the increase in underwriting profits generated by its subsidiary, Lonpac Insurance Bhd. The Group's net profit decreased by RM123.4 million or 28.2% to RM313.8 million as compared to RM437.2 million in the previous year due to the one-off realised gains as explained above. The Group's earnings per share decreased to 94.52 sen compared to 131.70 sen last year. Return on equity decreased to 16.3% from 23.8% reported in 2016.

Maintaining its prudent underwriting policy and sound claims management practices, the Group's underwriting results (the details are shown in Note 19 to the financial statements) increased by 9.8% or RM27.3 million to RM305.8 million in 2017 from RM278.5 million in 2016, mainly attributed to higher premium income. The claims incurred ratio increased slightly to 38.5% from 38.3% and the combined ratio also increased slightly to 64.0% from 63.7%. (Underwriting results is defined as Net Earned Premium – Net Claims Incurred + Commission Income – Commission Expenses – Management Expenses of Insurance Fund).

Operating Revenue

The LPI Group's operating revenue rose by 6.7% to RM1,470.6 million as compared to the previous financial year mainly from higher gross earned premium which contributed 93.9% of the total operating revenue in 2017.

	2017	2016	Variance		Contribution 2017
Operating Revenue	RM'000	RM'000	RM'000	%	%
Gross earned premium	1,380,627	1,290,021	90,606	7.0	93.9
Dividend income	28,191	33,876	(5,685)	(16.8)	1.9
Interest income	60,972	54,137	6,835	12.6	4.1
Rental of premises	841	858	(17)	(2.0)	0.1
Total	1,470,631	1,378,892	91,739	6.7	100.0

Gross Written Premiums and Gross Earned Premiums

The Group's gross written premiums grew 11.2% or RM143.0 million to RM1,421.3 million in 2017 from RM1,278.3 million in 2016. Miscellaneous and Fire insurances were the largest contributors to the growth, which accounted for approximately 34.2% and 39.4% of the total gross written premium respectively in 2017. The gross earned premiums rose 7.0% or RM90.6 million to RM1,380.6 million in 2017 from RM1,290.0 million in 2016. This was the result of organic growth and the continued expansion of its agency force and the strong contribution from its global partnership.

ANALYSIS OF THE FINANCIAL STATEMENTS

Gross Written Premiums By Class of Business

Class	2017	2016	Variance		Contribution 2017
	RM'000	RM'000	RM'000	%	%
Fire	560,300	521,159	39,141	7.5	39.4
Motor	297,550	295,015	2,535	0.9	20.9
Marine	78,110	95,857	(17,747)	(18.5)	5.5
Miscellaneous	485,379	366,308	119,071	32.5	34.2
Total	1,421,339	1,278,339	143,000	11.2	100.0

Gross Earned Premiums By Class of Business

Class	2017	2016	Variance		Contribution 2017
	RM'000	RM'000	RM'000	%	%
Fire	583,662	501,547	82,115	16.4	42.3
Motor	307,251	316,525	(9,274)	(2.9)	22.2
Marine	81,042	98,557	(17,515)	(17.8)	5.9
Miscellaneous	408,672	373,392	35,280	9.4	29.6
Total	1,380,627	1,290,021	90,606	7.0	100.0

Net Earned Premiums

The Group's net earned premiums increased in tandem with the higher gross earned premium by 10.8% or RM82.9 million to RM850.2 million when compared to RM767.3 million in 2016. The growth was mainly contributed by Fire and Miscellaneous class of business.

Net Earned Premiums By Class of Business

Class	2017	2016	Variance		Contribution 2017
	RM'000	RM'000	RM'000	%	%
Fire	375,811	322,453	53,358	16.5	44.2
Motor	264,075	255,720	8,355	3.3	31.1
Marine	17,973	17,775	198	1.1	2.1
Miscellaneous	192,295	171,349	20,946	12.2	22.6
Total	850,154	767,297	82,857	10.8	100.0

Other Income

The Group's other income, consists mainly of investment income, realised gains on disposals of investment and commission income, decreased by 38.0% or RM134.4 million to RM219.4 million in 2017 from RM353.8 million in 2016. The decrease was mainly due to lower realised gains from disposal of investment by RM147.4 million when compared to 2016.

Investment Income

Investment income increased by 1.2% or RM1.1 million to RM90.0 million from RM88.9 million in 2016 which comprised mainly dividend and interest. The Group's interest income from investment in fixed income securities and fixed deposits grew by 12.6% or RM6.8 million to RM60.9 million from RM54.1 million in 2016, whilst its dividend income from investment in equities and unit trusts reduced by RM5.7 million to RM28.2 million from RM33.9 million in 2016 mainly due to decrease in number of equity shares and cash unit fund held during the year.

Realised Gains and Losses

Total realised gains decreased by 98.1% or RM147.4 million to RM2.9 million from RM150.3 million in 2016. The decrease was mainly due to the one-off realised gains of RM150.4 million arising from the disposal of long term equity investment recorded in 2016.

Fair Value Gains and Losses

There were no fair value gains or losses recorded in 2017 as compared to fair value losses of RM2.3 million recognised in 2016 in respect of the decline in value of the Group's investment in properties of RM1.4 million and allowance of impairment made on the equity investment of RM0.9 million.

Commission Income

The Group's commission income increased by 8.9% or RM9.7 million to RM118.6 million from RM108.9 million in 2016. Higher gross premium written and increase in reinsurance placement have resulted in a higher reinsurance brokerage and reinsurance commission income.

Other Operating Income

Other operating income of the Group decreased slightly by 1.3% or RM0.1 million to RM7.9 million as compared to RM8.0 million in 2016 mainly due to lower interest earned from staff loans.

Net Claims Incurred

The Group's net claims incurred increased by 11.4% or RM33.5 million to RM327.7 million for 2017 as compared to RM294.2 million in 2016. The increase in the Group's net claims incurred was driven primarily by higher premium income. Our discipline and prudent risk selection and claims management managed to keep the claims incurred ratio at 38.5%, though increase slightly from 38.3% in 2016.

ANALYSIS OF THE FINANCIAL STATEMENTS

Net Claims Incurred By Class of Business

Class	2017	2016	Variance		Contribution 2017
	RM'000	RM'000	RM'000	%	%
Fire	56,361	62,549	(6,188)	(9.9)	17.2
Motor	187,433	164,986	22,447	13.6	57.2
Marine	5,036	7,325	(2,289)	(31.2)	1.5
Miscellaneous	78,881	59,292	19,589	33.0	24.1
Total	327,711	294,152	33,559	11.4	100.0

Net Claims Incurred Ratio By Class of Business

Class	2017	2016	Variance
	%	%	Percentage points
Fire	15.0	19.4	(4.4)
Motor	71.0	64.5	6.5
Marine	28.0	41.2	(13.2)
Miscellaneous	41.0	34.6	6.4
Total	38.5	38.3	0.2

Commission Expense

The Group's commission expense increased by 10.7% or RM15.8 million to RM162.8 million from RM147.0 million in 2016. The higher commissions and brokerage paid was in tandem with the higher gross written premium.

Management Expenses

The management expenses of the Group increased by 8.8% or RM14.4 million to RM177.8 million from RM163.4 million in 2016. Higher revenue has led to a corresponding increase in personnel cost and marketing expenses, while the expansion of the Group's operations has also resulted in higher administrative expenses. The staff cost constituted RM111.8 million or 62.9% of the Group's total management expenses of RM177.8 million.

Taxation

The Group's tax expense increased by RM8.2 million to RM89.9 million from RM81.7 million in 2016. The Group's effective tax rate for the current financial year was 22.6% which was lower than the statutory tax rate of 24.0%. The lower tax rate was mainly due to the tax-exempt dividends received.

STATEMENT OF RESPONSIBILITY BY DIRECTORS

PURSUANT TO PARAGRAPH 15.26(A) OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

The Directors are responsible for ensuring that the annual audited financial statements of the Group and the Company are drawn up in accordance with the requirements of the Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia, Bank Negara Malaysia's Guidelines and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and the Company are prepared with reasonable accuracy from the accounting records of the Group and the Company so as to give a true and fair view of the financial position of the Group and the Company as of 31 December 2017 and of their financial performance and cash flows for the year then ended.

In preparing the annual audited financial statements, the Directors have:

- applied the appropriate and relevant accounting policies on a consistent basis;
- made judgements and estimates that are reasonable and prudent; and
- prepared the annual audited financial statements on a going concern basis.

The Directors also have a general responsibility for taking reasonable steps to safeguard the assets of the Group and the Company to prevent and detect fraud and other irregularities.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

Principal activity

The Company is principally engaged in investment holding activities while the principal activity of the subsidiary are as stated in note 5 to the financial statements. There has been no significant change in the nature of this principal activity during the financial year.

Subsidiary

The details of the Company's subsidiary are disclosed in note 5 to the financial statements.

Results

	Group RM'000	Company RM'000
Profit for the year attributable to owners of the Company	313,794	196,880

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the amount of dividends paid by the Company were as follows:

- i) In respect of the financial year ended 31 December 2016 as reported in the Directors' Report of that year:
 - a second interim single tier dividend of 55.00 sen per ordinary share totalling RM182,592,194 declared on 6 February 2017 and paid on 2 March 2017; and
- ii) In respect of the financial year ended 31 December 2017:
 - a first interim single tier dividend of 27.00 sen per ordinary share totalling RM89,636,168 declared on 10 July 2017 and paid on 2 August 2017.

Subsequent to the financial year end, on 10 January 2018, the Directors declared a second interim single tier dividend of 45.00 sen per ordinary share on the issued and paid-up share capital as at the entitlement date on 25 January 2018 in respect of the financial year ended 31 December 2017. The dividend will be payable on 6 February 2018. The Directors do not propose any final dividend for the financial year ended 31 December 2017.

Directors of the Company

Directors who served during the financial year until the date of this report are:

Tan Sri Dato' Sri Dr. Teh Hong Piow
 Tee Choon Yeow
 Tan Kok Guan
 Lee Chin Guan
 Quah Poh Keat
 Chan Kwai Hoe

List of Directors of Subsidiary

Pursuant to Section 253 of the Companies Act 2016 in Malaysia, the list of Directors of the subsidiary during the financial year and up to the date of this report is as follows:

Tan Sri Dato' Sri Dr. Teh Hong Piow
 Tee Choon Yeow
 Lee Chin Guan
 Tan Kok Guan (Cessation on 8 January 2018)
 Looi Kong Meng (Appointed on 8 January 2018)
 Quah Poh Keat
 Chan Kwai Hoe
 Mohd Suffian Bin Haji Haron (Appointed on 1 June 2017)

Directors' interests in shares

The interests and deemed interests in the shares of the Company and of its related corporations (other than wholly-owned subsidiary) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

		Number of ordinary shares			
		At 1.1.2017	Bought	Sold	At 31.12.2017
Interests in the Company:					
Tan Sri Dato' Sri Dr. Teh Hong Piow					
- own		4,684,800	-	-	4,684,800
- deemed interest		142,015,200	-	-	142,015,200
Tee Choon Yeow					
- own		960,000	-	-	960,000
Tan Kok Guan					
- deemed interest		525,000	-	-	525,000
Lee Chin Guan					
- own		2,250,000	-	(50,000)	2,200,000

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Directors' interests in shares (continued)

By virtue of his interests in the shares of the Company as shown above, Tan Sri Dato' Sri Dr. Teh Hong Piow is deemed interested in the shares of the subsidiary during the financial year to the extent that LPI Capital Bhd has an interest.

None of the other Directors holding office at 31 December 2017 had any interest in the shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than a Director who have substantial financial interests in companies which traded with the Company in the ordinary course of business as disclosed in note 35 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares and debentures

There were no changes in the issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and insurance costs

The following disclosure on particulars of indemnity given, to, or insurance effected for, any Director or officer of the Company is made pursuant to Section 289(7) of the Companies Act 2016:

	Amount paid RM'000	Sum insured RM'000
Directors and Officers Liability Insurance	36	28,000

There were no indemnity given to, or insurance effected for auditors of the Company during the financial year.

Other statutory information

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) there was adequate provision for incurred claims, including Incurred But Not Reported ("IBNR") claims,
- ii) all known impaired debts have been written off and adequate impairment allowance made for impaired debts, and
- iii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for impaired debts, or the amount of the provision for impaired debts and IBNR claims in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

For the purpose of this paragraph, contingent and other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Group.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Subsequent event

The significant subsequent event is disclosed in note 39 to the financial statements.

Auditors

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in note 26 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tee Choon Yeow

Director

Tan Kok Guan

Director

Kuala Lumpur

Date: 10 January 2018

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets					
Plant and equipment	3	17,138	13,042	435	557
Investment properties	4	27,270	27,900	-	-
Investment in subsidiary	5	-	-	200,000	200,000
Investment in associated company	6	26,877	26,796	10,833	10,833
Other investments		1,146,699	1,132,982	893,580	856,889
- Available-for-sale financial assets	7(a)	927,356	889,779	883,580	846,889
- Held-to-maturity financial assets	7(b)	219,343	243,203	10,000	10,000
Reinsurance assets	8	692,791	685,035	-	-
Loans and receivables, excluding insurance receivables	9(a)	1,419,352	1,256,662	101,911	140,982
Insurance receivables	9(b)	156,379	150,728	-	-
Deferred acquisition costs	10	33,650	30,451	-	-
Cash and cash equivalents	11	294,459	332,517	63,076	90,575
Total assets		3,814,615	3,656,113	1,269,835	1,299,836
Equity					
Share capital		338,244	331,986	338,244	331,986
Reserves		1,582,667	1,505,330	929,750	966,391
Total equity	12	1,920,911	1,837,316	1,267,994	1,298,377
Liabilities					
Insurance contract liabilities	13	1,636,422	1,609,458	-	-
Deferred tax liabilities	14	1,001	944	-	-
Finance lease liabilities	15	899	-	-	-
Insurance payables	16	121,894	79,804	-	-
Other payables	17	110,817	105,374	1,198	867
Tax payables		22,671	23,217	643	592
Total liabilities		1,893,704	1,818,797	1,841	1,459
Total equity and liabilities		3,814,615	3,656,113	1,269,835	1,299,836

The notes on pages 158 to 244 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating revenue	18	1,470,631	1,378,892	203,221	196,266
Gross written premiums	19	1,421,339	1,278,339	-	-
Change in unearned premiums provision	19	(40,712)	11,682	-	-
Gross earned premiums	19	1,380,627	1,290,021	-	-
Gross written premiums ceded to reinsurers	19	(553,838)	(506,668)	-	-
Change in unearned premiums provision	19	23,365	(16,056)	-	-
Premiums ceded to reinsurers	19	(530,473)	(522,724)	-	-
Net earned premiums	19	850,154	767,297	-	-
Investment income	20	90,004	88,871	203,221	196,266
Realised gains and losses	21	2,966	150,282	1,471	127,645
Fair value gains and losses	22	-	(2,266)	-	-
Commission income	23	118,560	108,918	-	-
Other operating income	24	7,905	8,002	59	-
Other income		219,435	353,807	204,751	323,911
Gross claims paid	25	(510,816)	(533,068)	-	-
Claims ceded to reinsurers	25	187,144	236,822	-	-
Gross change in contract liabilities	25	10,298	35,204	-	-
Change in contract liabilities ceded to reinsurers	25	(14,337)	(33,110)	-	-
Net claims incurred	25	(327,711)	(294,152)	-	-
Commission expense	23	(162,796)	(147,037)	-	-
Management expenses	26	(177,819)	(163,413)	(5,695)	(6,869)
Other expenses		(340,615)	(310,450)	(5,695)	(6,869)
Operating profit		401,263	516,502	199,056	317,042
Finance cost		(3)	-	-	-
Share of profit after tax of equity accounted associated company		2,489	2,423	-	-
Profit before tax		403,749	518,925	199,056	317,042
Tax expense	28	(89,955)	(81,702)	(2,176)	(1,951)
Profit for the year		313,794	437,223	196,880	315,091
Profit attributable to:					
Owners of the Company		313,794	437,223	196,880	315,091

Earnings per ordinary share (sen)

Basic	29	94.52	131.70
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The notes on pages 158 to 244 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the year		313,794	437,223	196,880	315,091
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operation		(4,796)	2,257	-	-
Fair value of available-for-sale financial assets					
- Gains arising during the year		49,263	57,842	46,436	56,106
- Reclassification to profit or loss		(2,513)	(149,463)	(1,471)	(127,645)
		46,750	(91,621)	44,965	(71,539)
		41,954	(89,364)	44,965	(71,539)
Tax effect on net gain/ (loss) on fair value of available-for-sale financial assets	28	75	(155)	-	-
Total other comprehensive income/ (loss) for the year, net of tax		42,029	(89,519)	44,965	(71,539)
Total comprehensive income for the year attributable to owners of the Company		355,823	347,704	241,845	243,552

The notes on pages 158 to 244 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Note	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
At 1 January 2016		331,986	6,258	24,816	805,377	570,164	1,738,601
Foreign currency translation differences for foreign operation		-	-	2,257	-	-	2,257
Fair value of available-for-sale financial assets		-	-	-	(91,776)	-	(91,776)
Total other comprehensive income/ (loss) for the year		-	-	2,257	(91,776)	-	(89,519)
Profit for the year		-	-	-	-	437,223	437,223
Total comprehensive income/ (loss) for the year		-	-	2,257	(91,776)	437,223	347,704
<i>Distribution to owners of the Company</i>							
Dividends to owners of the Company	30	-	-	-	-	(248,989)	(248,989)
Total transaction with owners of the Company		-	-	-	-	(248,989)	(248,989)
At 31 December 2016		331,986	6,258	27,073	713,601	758,398	1,837,316
		Note 12.1	Note 12.2	Note 12.3	Note 12.4		
At 1 January 2017		331,986	6,258	27,073	713,601	758,398	1,837,316
Foreign currency translation differences for foreign operation		-	-	(4,796)	-	-	(4,796)
Fair value of available-for-sale financial assets		-	-	-	46,825	-	46,825
Total other comprehensive (loss)/ income for the year		-	-	(4,796)	46,825	-	42,029
Profit for the year		-	-	-	-	313,794	313,794
Total comprehensive (loss)/ income for the year		-	-	(4,796)	46,825	313,794	355,823
<i>Distribution to owners of the Company</i>							
Dividends to owners of the Company	30	-	-	-	-	(272,228)	(272,228)
Total transaction with owners of the Company		-	-	-	-	(272,228)	(272,228)
Transfer in accordance with Section 618(2) of the Companies Act 2016		6,258	(6,258)	-	-	-	-
At 31 December 2017		338,244	-	22,277	760,426	799,964	1,920,911
		Note 12.1	Note 12.2	Note 12.3	Note 12.4		

The notes on pages 158 to 244 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Company	Note	Non-distributable			Distributable	Total
		Share capital	Share premium	Fair value reserve	Retained earnings	
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016		331,986	6,258	659,094	306,476	1,303,814
Fair value of available-for-sale financial assets		-	-	(71,539)	-	(71,539)
Total other comprehensive loss for the year		-	-	(71,539)	-	(71,539)
Profit for the year		-	-	-	315,091	315,091
Total comprehensive (loss)/ income for the year		-	-	(71,539)	315,091	243,552
<i>Distribution to owners of the Company</i>						
Dividends to owners of the Company	30	-	-	-	(248,989)	(248,989)
Total transaction with owners of the Company		-	-	-	(248,989)	(248,989)
At 31 December 2016		331,986	6,258	587,555	372,578	1,298,377
		Note 12.1	Note 12.2	Note 12.4		
At 1 January 2017		331,986	6,258	587,555	372,578	1,298,377
Fair value of available-for-sale financial assets		-	-	44,965	-	44,965
Total other comprehensive income for the year		-	-	44,965	-	44,965
Profit for the year		-	-	-	196,880	196,880
Total comprehensive income for the year		-	-	44,965	196,880	241,845
<i>Distribution to owners of the Company</i>						
Dividends to owners of the Company	30	-	-	-	(272,228)	(272,228)
Total transaction with owners of the Company		-	-	-	(272,228)	(272,228)
Transfer in accordance with Section 618(2) of the Companies Act 2016		6,258	(6,258)	-	-	-
At 31 December 2017		338,244	-	632,520	297,230	1,267,994
		Note 12.1	Note 12.2	Note 12.4		

The notes on pages 158 to 244 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating activities				
Profit before tax	403,749	518,925	199,056	317,042
Investment income	(90,004)	(88,871)	(203,221)	(196,266)
Realised gains recorded in profit or loss	(2,966)	(150,282)	(1,471)	(127,645)
Fair value losses recorded in profit or loss	-	2,266	-	-
Share of profit of equity accounted associated company	(2,489)	(2,423)	-	-
Purchase of available-for-sale financial assets	(886)	(9,300)	(225)	(8,274)
Proceeds from disposal of available-for-sale financial assets	12,416	185,059	9,970	185,059
Purchase of held-to-maturity financial assets	(48,170)	(13,137)	-	-
Maturity of held-to-maturity financial assets	71,773	63,875	-	-
Interest on finance lease liabilities	3	-	-	-
Non-cash items:				
Depreciation of plant and equipment	3,185	3,560	122	51
Write off of plant and equipment	3	-	-	-
Unrealised foreign exchange loss/ (gain)	215	(585)	-	-
Changes in working capital:				
(Increase)/ Decrease in loans and receivables	(164,149)	(851,969)	39,071	(79,118)
(Increase)/ Decrease in reinsurance assets	(9,028)	49,166	-	-
Increase in insurance receivables	(5,885)	(15,500)	-	-
(Increase)/ Decrease in deferred acquisition costs	(3,166)	3,096	-	-
Increase/ (Decrease) in insurance contract liabilities	30,414	(46,886)	-	-
Increase/ (Decrease) in insurance payables	42,150	(15,899)	-	-
Increase/ (Decrease) in other payables	5,849	(11,017)	331	229
Cash generated from/ (used in) operating activities	243,014	(379,922)	43,633	91,078
Dividend income received	28,191	33,876	195,414	187,974
Interest income received	61,035	54,118	7,807	8,292
Rental income on investment property received	841	858	-	-
Income tax paid	(90,355)	(78,682)	(2,125)	(1,608)
Net cash flows generated from/ (used in) operating activities	242,726	(369,752)	244,729	285,736

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Investing activities				
Proceeds from disposal of plant and equipment	712	-	118	-
Purchase of plant and equipment	(6,648)	(2,833)	(118)	(608)
Net cash flows used in investing activities	(5,936)	(2,833)	-	(608)
Financing activities				
Dividends paid to owners of the Company	(272,228)	(248,989)	(272,228)	(248,989)
Repayment of finance lease liabilities	(17)	-	-	-
Net cash flows used in financing activities	(272,245)	(248,989)	(272,228)	(248,989)
Net (decrease)/ increase in cash and cash equivalents	(35,455)	(621,574)	(27,499)	36,139
Cash and cash equivalents at 1 January	332,517	952,253	90,575	54,436
Effect of movement in exchange rates	(2,603)	1,838	-	-
Cash and cash equivalents at 31 December (Note 11)	294,459	332,517	63,076	90,575

Acquisition of plant and equipment

During the financial year, the Group acquired plant and equipment with an aggregate cost of RM7,561,000 (2016: RM2,833,000), of which RM913,000 (2016: Nil) were acquired by means of finance lease.

NOTES TO THE FINANCIAL STATEMENTS

LPI Capital Bhd is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its principal place of business and registered office of the Company are as follows:

Principal place of business/ Registered office

6th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
Malaysia

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2017 comprise the Company and its subsidiary (together referred to as the “Group” and individually referred to as “Group entities”) and the Group’s interest in an associated company. The financial statements of the Company as at and for the year ended 31 December 2017 do not include other entities.

The Company is principally engaged in investment holding activities while the principal activity of the subsidiary is stated in note 5 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 10 January 2018.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments and interpretations of the MFRSs that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- MFRS 15, *Revenue from Contracts with Customers – Clarifications to MFRS 15, Revenue from Contracts with Customers*
- Amendments to MFRS 2, *Share-based Payments – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4, Insurance Contracts*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Properties – Transfers of Investment Property*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Incentives*
- Amendments to MFRS 128, *Long-term Interests in Associates and Joint Ventures*
- Amendments to MFRS 9, *Prepayment Features with Negative Compensation*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2018 for those accounting standards that are effective for annual periods beginning on or after 1 January 2018 except for amendments to MFRS 2 and amendments to MFRS 1 which are not applicable to the Group and the Company;
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019; and
- from the annual period beginning on 1 January 2021 for the accounting standard that is effective for annual periods beginning on or after 1 January 2021.

The initial application of the abovementioned standards, amendments and interpretations are not expected to have any material impacts to the financial statements of the Group and the Company except as mentioned below:

MFRS 9, Financial Instruments

MFRS 9, *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces MFRS 139 *Financial Instruments: Recognition and Measurement*.

(i) Classification of financial assets

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments* (continued)

(i) *Classification of financial assets* (continued)

MFRS 9 contains three (3) principal classification categories for financial assets:

- Amortised Cost (“AC”);
- Fair Value through Other Comprehensive Income (“FVOCI”); and
- Fair Value through Profit or Loss (“FVTPL”).

The standard eliminates the existing MFRS 139 categories of Held-to-Maturity (“HTM”), Loans and Receivables (“L&R”) and Available-for-Sale (“AFS”).

Based on its assessment, the financial assets held by the Group and the Company as at 31 December 2017 will be reclassified to the following classifications:

Group		2017	Existing	New
Financial assets		RM'000	classification	classification
			under	under
			MFRS 139	MFRS 9
Investment in Equity Instruments	(i)	915,544	AFS	FVOCI
Other investments	(ii)	11,812	AFS	FVTPL
Investment in Debt Securities	(iii)	81,190	HTM	AC
Investment in Debt Securities	(iv)	138,153	HTM	FVTPL
Reinsurance assets		368,354	L&R	AC
Loans and receivables, excluding insurance receivables		1,419,352	L&R	AC
Insurance receivables		156,379	L&R	AC
Cash and cash equivalents		243,027	L&R	AC
Liquid investment classified as cash and cash equivalent	(v)	51,432	L&R	FVTPL
		<u>3,385,243</u>		

At 31 December 2017, the Group:

- held a substantial amount of equity investment classified as available-for-sale with a fair value of RM915,544,000 that are held for long-term strategic purpose. Under MFRS 9, the Group has elected to designate this investment to be measured at FVOCI;
- had unit trust, real estate investment trusts (“REITs”), exchange-traded fund (“ETF”), equity securities (other than equity investment mentioned in (i) above) were classified as available-for-sale with a fair value of RM11,812,000 that are managed on fair value basis. Under MFRS 9, the Group has designated these investments to be measured at FVTPL;

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments* (continued)

(i) *Classification of financial assets* (continued)

- iii. had investment in debt securities classified as held-to-maturity with carrying amount of RM81,190,000 that are held to collect contractual cash flows. Under MFRS 9, the Group has designated these debts securities to be measured at amortised cost;
- iv. had investment in debt securities classified as held-to-maturity with carrying amount of RM138,153,000 that are held to collect contractual cash flows. Under MFRS 9, these debt securities have not passed the solely payments of principal and interest ("SPPI") test. As such, the Group has designated this investment in debt securities to be measured at FVTPL; and
- v. had liquid investment classified as loans and receivables with carrying amount of RM51,432,000. Under MFRS 9, the liquid investment has not passed the SPPI test. As such, the Group has designated this investment to be measured at FVTPL.

Company		2017	Existing	New
Financial assets		RM'000	classification under MFRS 139	classification under MFRS 9
Investment in Equity Instruments	(i)	883,580	AFS	FVOCI
Investment in Debt Securities	(ii)	10,000	HTM	FVTPL
Cash and cash equivalents		63,076	L&R	AC
		<u>956,656</u>		

At 31 December 2017, the Company:

- i. held a substantial amount of equity investment classified as available-for-sale with a fair value of RM883,580,000 that are held for long-term strategic purpose. Under MFRS 9, the Company has elected to designate this investment to be measured at FVOCI;
- ii. had investment in debt securities classified as held-to-maturity with carrying amount of RM10,000,000 that are held to collect contractual cash flows. Under MFRS 9, these debt securities have not passed the solely payments of principal and interest ("SPPI") test. As such, the Company will designate this investment in debt securities to be measured at FVTPL.

Consequently, for financial assets designated to be measured at FVTPL, all fair value gains and losses will be reported in profit or loss for financial assets designated as measured at FVTPL. For financial assets to be measured at FVOCI, all fair value gains and losses will be reported in Other Comprehensive Income, no impairment losses will be recognised in profit or loss and no gains or losses will be reclassified to profit or loss on disposal for these financial assets.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments* (continued)

(ii) *Impairment of financial assets*

MFRS 9 replaces the “incurred loss” model in MFRS 139 with a forward-looking “expected credit loss” (“ECL”) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at AC or FVOCI, except for investments in equity instruments.

Under MFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not increased significantly. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, the Group has adopted lifetime ECL measurements for insurance receivables due to the expected lifetime period of insurance receivables are generally less than 12 months.

The calculation of ECL requires the modelling of three parameters that define:

- *Exposure at Default (“EAD”)*: The Group’s gross credit exposure to the counterparty at the time of default;
- *Probability of Default (“PD”)*: The likelihood of the counterparty defaulting on its contractual obligation to the Group; and
- *Loss Given Default (“LGD”)*: The amount or the percentage of an outstanding claim on the counterparty that is not likely to be recovered in the event of a default.

The Group has estimated that the application of MFRS 9’s impairment requirements at 1 January 2018 will result in additional impairment losses as follows:

	2017 RM’000
Financial assets	
Investment in debt securities classified at AC	13
Insurance receivables	872
Gross additional impairment losses	885

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments* (continued)

(iii) *Classification of financial liabilities*

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities.

However, under MFRS 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under MFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group and the Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's and the Company's assessment did not indicate any material impact regarding the classification of financial liabilities as at 1 January 2018.

(iv) *Disclosures*

MFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Group and the Company will implement a process and controls changes that it believes will be necessary to capture the required data.

(v) *Transition upon the adoption of MFRS 9*

Changes in accounting policies resulting from the adoption of MFRS 9 will generally be applied retrospectively, except as described below:

- i. The Group and the Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- ii. The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, Financial Instruments (continued)

(vi) Estimated impact of the adoption of MFRS 9

The estimated impact of the adoption of MFRS 9 on the Group's and the Company's equity as at 1 January 2018 disclosed below is based on the assessments undertaken to date and maybe subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group and the Company in the future.

	As reported at 31 December 2017	Estimated adjustments due to adoption of MFRS 9	Estimated adjusted opening balance at 1 January 2018
Group	RM'000	RM'000	RM'000
Statement of Financial Position			
Equity			
Fair value reserves	760,426	(1,672)	758,754
Retained earnings	799,964	3,993	803,957

The total estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is RM2,321,000. The principal components of the estimated adjustment are as follows:

- A decrease of RM1,672,000 in fair value reserve due to the classification of financial assets from AFS to FVTPL;
- An increase of RM5,497,000 in retained earnings due to fair value gain arising from the classification of financial assets from AFS and HTM to FVTPL;
- A decrease of RM674,000 (net of tax) in retained earnings due to additional impairment expenses recognised under the ECL model; and
- A decrease of RM830,000 in retained earnings due to additional deferred tax liabilities recognised as a result of recognition of fair value gains for unquoted equity securities and investments previously classified as HTM under MFRS 139.

	As reported at 31 December 2017	Estimated adjustments due to adoption of MFRS 9	Estimated adjusted opening balance at 1 January 2018
Company	RM'000	RM'000	RM'000
Statement of Financial Position			
Equity			
Retained earnings	297,230	390	296,840

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, Financial Instruments (continued)

The total estimated adjustment to the opening balance of the Company's equity at 1 January 2018 is RM390,000. The estimated adjustment is an increase in retained earnings due to fair value gain arising from the classification of financial assets from HTM to FVTPL.

MFRS 16, Leases

MFRS 16 replaces existing leases guidance, including MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases – Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply MFRS 15 at or before the date of initial application of MFRS 16.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

In addition, the nature of expenses related to those leases will now change as MFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group and the Company are currently assessing the financial impact of adopting MFRS 16.

MFRS 17, Insurance Contracts

MFRS 17 was issued by MASB in August 2017. The standard will replace the existing MFRS 4 and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The Group is currently assessing the financial impact of adopting MFRS 17.

(b) Basis of measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis except as disclosed in the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- | | |
|-------------------|----------------------------------|
| Note 2(d)(i) | - Investment properties |
| Note 2(e) | - Financial instruments |
| Note 2(k) and (l) | - Claims and premium liabilities |

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investment in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisition of non-controlling interests

The Group accounts for all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Associated companies

Associated companies are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(v) Associated companies (continued)

Investments in associated companies are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of investments includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associated company, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associated companies, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associated companies.

When the Group ceases to have significant influence over an associated companies, any retained interest in the former associated company at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the Group's interest in an associated companies decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associated company are stated in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted associated companies are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve ("FCTR") in equity.

(ii) Operation denominated in functional currencies other than Ringgit Malaysia

Financial statements of Singapore Branch of a subsidiary

The assets and liabilities of operations denominated in functional currencies other than RM, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations, are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the FCTR in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associated company or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment, except for capital work-in-progress, are measured at cost less accumulated depreciation and any accumulated impairment losses. Capital work-in-progress is measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the plant and equipment and is recognised net within “realised gains and losses” in the profit or loss.

(ii) Subsequent costs

The cost of replacing component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in the profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset, or other amount substituted for cost, less its residual value. Significant component of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Capital work-in-progress are not depreciated until the assets are ready for their intended use.

2. Significant accounting policies (continued)

(c) Plant and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

• Office equipment	4 years
• Furniture and fittings	4 years
• Renovation	5 years
• Computers	4 years
• Motor vehicles	5 years

Depreciation method, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(d) Investment properties

(i) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of services or for administrative purposes.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in the profit or loss for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefit are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(ii) Reclassifications to/ from investment properties carried at fair value

When an item of plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the profit or loss.

When the use of a property changes such that it is reclassified as plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(e) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise and measure financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group and the Company have the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(c) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market (including fixed deposits with financial institutions).

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in the profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method is recognised in profit or loss.

(e) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in note 2(e)(v), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2(f)(i) and (ii)).

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for identical instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Fair value arising from financial guarantee contracts are classified as deferred income and is amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

(v) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

(f) Impairment

(i) Financial assets, excluding insurance receivables

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiary and investment in an associated companies) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables (excluding insurance receivables where the policy is set out in note 2(f)(ii) below) and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in the profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets, excluding insurance receivables (continued)

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss.

(ii) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months for those individually assessed, as prescribed in the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia.

An impairment loss in respect of insurance receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss.

(iii) Other assets

The carrying amounts of other assets (except for deferred tax asset and investment properties that is measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(iii) Other assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less, and are used by the Group in the management of their short-term commitments.

(h) Product classification

The Group issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(i) Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent amounts recoverable from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in profit or loss.

Gains or losses on buying reinsurance, if any, are recognised in profit or loss immediately at the date of purchase and are not amortised.

The Group also assumes reinsurance risk in the normal course of business when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

(j) Commission and agency expenses

Gross commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to profit or loss in the period in which they are incurred or deferred where appropriate as set out in note 2(k).

2. Significant accounting policies (continued)

(k) General insurance underwriting results

The general insurance underwriting results, are determined for each class of business after taking into account inter alia reinsurances, commissions, unearned premium reserves and claims incurred.

Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period except for inward treaty reinsurance premiums which are recognised on the basis of periodic advices/ accounts received from ceding insurers.

Insurance contract liabilities

These liabilities comprise provision for unearned premiums and provision for outstanding claims.

Provision for unearned premiums

Provision for unearned premiums is the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the unexpired risk reserves ("URR") at the required risk margin for adverse deviation.

Unearned premium reserves

With effective from 1 July 2017, the Group revised its accounting estimate in relation to the UPR calculation for certain classes of business to reflect a more accurate position of the Group's UPR as at year end. These changes in accounting estimates are accounted for prospectively. Refer to note 13.4 for the effect of changes in accounting estimates.

The previously used calculation method:-

Annual policies

- (i) 25% method for marine cargo, aviation cargo 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 cargo 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(k) General insurance underwriting results (continued)

Provision for unearned premiums (continued)

Unexpired risk reserves

At each reporting date, the Group reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs are inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

Provision for outstanding claims

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the end of the reporting period. The liability is calculated at the reporting date by an independent actuarial firm using projection techniques as set out in note 2(l) that included a regulatory risk margin for adverse deviation ("PRAD"). The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Acquisition costs and deferred acquisition costs ("DAC")

The gross cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Acquisition costs or ceding income which are not recoverable, or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

Such costs are deferred to the extent that these are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised/ allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in profit or loss.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. DAC is also considered in the liability adequacy test for each accounting period.

DAC is derecognised when the related contracts are either settled or disposed of.

2. Significant accounting policies (continued)

(l) Valuation of general insurance contract liabilities

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not yet reported at the end of the reporting period ("IBNR").

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios.

Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(m) Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Other income recognition

(i) Interest income

Interest income from investments with fixed or determinable payment and fixed maturity are recognised using the effective interest rate method.

Interest income on loans are recognised on an accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six (6) months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

(ii) Rental income

Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six (6) months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in case of quoted securities is the ex-dividend date.

(o) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. Significant accounting policies (continued)

(o) Employee benefits (continued)

(ii) State plans

The Group's and the Company's contributions to the statutory pension funds are charged to the profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(p) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(q) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(q) Borrowing costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(s) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Treasury shares

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs, net of tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

When treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

No gain or loss is recognised in the statement of profit or loss on the sale, re-issuance or cancellation of the treasury shares. Should such treasury shares be reissued by re-sale in the open market, the difference between the sales consideration net of directly attributable costs and the carrying amount are shown as a movement in equity, as appropriate.

(t) Earnings per share ("EPS")

The Group presents basic EPS data for its ordinary shares.

Basic EPS is calculated by dividing the consolidated profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

No diluted EPS is disclosed in these financial statements as there are no dilutive potential ordinary shares.

2. Significant accounting policies (continued)

(u) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can assess at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group or the Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS

3. Plant and equipment

Group	Office equipment	Furniture and fittings	Renovation	Computers	Motor vehicles	Capital work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost							
At 1 January 2016	1,413	6,639	7,820	31,733	3,228	7,100	57,933
Additions	143	32	15	647	1,638	358	2,833
Disposals	-	-	-	(63)	-	-	(63)
Written off	(5)	(4)	-	(3)	-	-	(12)
Transfer to plant and equipment	-	-	-	80	-	(80)	-
Effect of movement in exchange rates	1	6	16	24	4	-	51
At 31 December 2016/ 1 January 2017	1,552	6,673	7,851	32,418	4,870	7,378	60,742
Additions	89	151	1,602	3,492	1,378	849	7,561
Disposals	(108)	(274)	(1,073)	(1,067)	(3,172)	-	(5,694)
Written off	(15)	(7)	-	(277)	-	-	(299)
Transfer to plant and equipment	-	-	198	99	-	(297)	-
Effect of movement in exchange rates	(3)	(10)	(29)	(42)	(8)	-	(92)
At 31 December 2017	1,515	6,533	8,549	34,623	3,068	7,930	62,218
Accumulated Depreciation							
At 1 January 2016	1,147	6,128	7,193	26,602	3,111	-	44,181
Depreciation for the year	133	279	241	2,707	200	-	3,560
Disposals	-	-	-	(63)	-	-	(63)
Written off	(5)	(4)	-	(3)	-	-	(12)
Effect of movement in exchange rates	1	4	16	10	3	-	34
At 31 December 2016/ 1 January 2017	1,276	6,407	7,450	29,253	3,314	-	47,700
Depreciation for the year	160	151	595	1,783	496	-	3,185
Disposals	(107)	(250)	(1,074)	(833)	(3,171)	-	(5,435)
Written off	(15)	(7)	-	(274)	-	-	(296)
Effect of movement in exchange rates	(3)	(9)	(29)	(26)	(7)	-	(74)
At 31 December 2017	1,311	6,292	6,942	29,903	632	-	45,080
Carrying amounts							
At 1 January 2016	266	511	627	5,131	117	7,100	13,752
At 31 December 2016/ 1 January 2017	276	266	401	3,165	1,556	7,378	13,042
At 31 December 2017	204	241	1,607	4,720	2,436	7,930	17,138

3. Plant and equipment (continued)

	Motor vehicles RM'000
Company	
Cost	
At 1 January 2016	-
Additions	608
At 31 December 2016/ 1 January 2017	608
Additions	118
Disposals	(118)
At 31 December 2017	608
Accumulated Depreciation	
At 1 January 2016	-
Depreciation for the year	51
At 31 December 2016/ 1 January 2017	51
Depreciation for the year	122
At 31 December 2017	173
Carrying amounts	
At 31 December 2016/ 1 January 2017	557
At 31 December 2017	435

3.1 Leased plant and equipment

At 31 December 2017, the net carrying amount of leased plant and equipment of the Group was RM895,000 (2016: Nil).

3.2 Fully depreciated assets

Included in plant and equipment of the Group are the following fully depreciated assets which are still in use:

Group	2017 RM'000	2016 RM'000
At cost:		
Office equipment	1,479	951
Furniture and fittings	6,520	5,906
Renovation	7,377	6,707
Computers	29,970	25,260
Motor vehicles	398	2,879

NOTES TO THE FINANCIAL STATEMENTS

4. Investment properties

Group	Note	2017 RM'000	2016 RM'000
At 1 January		27,900	28,886
Change in fair value recognised in profit or loss	22	-	(1,364)
Effect of movement in exchange rates		(630)	378
At 31 December		27,270	27,900

Investment properties comprise commercial properties that are leased to third parties. Each of the leases consists of an average lease term of 3 years. Subsequent renewals are negotiated with the lessee and average renewal periods are 2 years. No contingent rents are charged.

Investment properties are valued as at 18 December 2017 by Asian Appraisal Company Pte. Ltd., a firm of independent professional valuers that has appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued. The fair values are based on open market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The following are recognised in the profit or loss in respect of investment properties:

Group	Note	2017 RM'000	2016 RM'000
Rental income	18, 20	841	858
Direct operating expenses		(86)	(92)

Fair value information

Fair value of investment properties are categorised as follows:

Group	Level 1 RM'000	Level 2 RM'000	Total RM'000
2017			
Buildings	-	27,270	27,270
2016			
Buildings	-	27,900	27,900

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.

4. Investment properties (continued)

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical investment properties 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 investment property, either directly or indirectly.

Level 2 fair values of buildings have been generally derived using the sales comparison method. Sales price of comparable properties in close proximity are adjusted for any differences in key attributes such as location, master plan zoning, size, design and layout, tenure, age and condition of buildings and the dates of transactions. The most significant input into this valuation approach is price per square foot of comparable properties.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the financial year.

5. Investment in subsidiary

	2017 RM'000	2016 RM'000
At cost		
Unquoted shares	200,000	200,000

Details of the subsidiary, which is incorporated in Malaysia, are as follows:

Name of subsidiary	Principal activity	Effective ownership interest and voting interest	
		2017 %	2016 %
Lonpac Insurance Bhd	Underwriting of general insurance	100	100

NOTES TO THE FINANCIAL STATEMENTS

6. Investment in associated company

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At cost				
Unquoted shares	10,833	10,833	10,833	10,833
Share of post-acquisition reserves*	12,962	10,473	-	-
Effect of movement in exchange rates	3,082	5,490	-	-
	26,877	26,796	10,833	10,833

* Share of post-acquisition reserves of the investment in associated company is accounted for using management accounts.

The Group's share in the results of the associated company, Campu Lonpac Insurance Plc, a company incorporated in Cambodia, are as follows:

	2017 RM'000	2016 RM'000
Group's share of results for the year ended 31 December		
Group's share of profit or loss from continuing operations	2,489	2,423
Group's share of other comprehensive income	(2,408)	921
Group's share of total comprehensive income	81	3,344

7. Other investments

(a) Available-for-sale ("AFS") financial assets

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At fair value				
Unit trust				
Quoted in Malaysia	5,976	5,859	-	-
Real estate investment trusts ("REITs")				
Quoted in Malaysia	978	928	-	-
Exchange-traded fund ("ETF")				
Quoted outside Malaysia	631	-	-	-

7. Other investments (continued)

(a) Available-for-sale (“AFS”) financial assets (continued)

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Equity securities in corporations				
Quoted in Malaysia	915,544	879,274	883,580	846,889
Quoted outside Malaysia	3,992	3,483	-	-
Unquoted in Malaysia	235	235	-	-
	919,771	882,992	883,580	846,889
Total AFS financial assets	927,356	889,779	883,580	846,889

Included in the Group's and Company's investments in equity securities of corporations quoted in Malaysia are investments in ordinary shares of Public Bank Berhad, a company in which a Director has substantial financial interest, with a carrying value of RM915,544,000 (2016: RM868,841,000) and RM883,580,000 (2016: RM838,508,000) respectively.

(b) Held-to-maturity (“HTM”) financial assets

	2017		2016	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
At amortised cost				
Group				
Malaysian government securities	-	-	19,494	19,515
Malaysian government guaranteed loans	40,055	40,344	30,076	30,206
Corporate bonds and sukuk				
- Unquoted in Malaysia	169,992	172,742	184,989	187,590
- Unquoted outside Malaysia	9,296	9,120	8,644	8,541
Total HTM financial assets	219,343	222,206	243,203	245,852
Company				
Corporate bonds and sukuk				
- Unquoted in Malaysia	10,000	10,390	10,000	10,578

Included in the Group's and Company's investments in unquoted corporate bonds and sukuk are investments in bonds issued by Public Bank Berhad, a company in which a Director has substantial financial interest, with a carrying value of RM55,000,000 (2016: RM65,000,000) and RM10,000,000 (2016: RM10,000,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

7. Other investments (continued)

(c) Estimation of fair values

The fair values of quoted securities, unit trusts, real estate investment trusts and exchange-traded fund are their last quoted bid prices at the end of the reporting period.

The fair values for Malaysian government securities and Malaysian government guaranteed loans are their indicative mid market prices quoted by the regulatory agencies at the end of the reporting period.

The estimated fair values of unquoted corporate bonds and sukuk are based on the average indicative mid market prices obtained from two independent licensed financial institutions.

The fair value of the unquoted equity security in corporation was determined to approximate the carrying amount as this is immaterial in the context of the financial statements.

The following other investments that mature after 12 months:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Held-to-maturity financial assets	193,212	173,707	10,000	10,000

(d) Carrying values of financial instruments

	AFS RM'000	HTM RM'000	Total RM'000
Group			
At 1 January 2016	1,007,594	293,800	1,301,394
Addition/ Dividend	9,300	13,137	22,437
Disposal/ Maturity/ Repayment	(185,059)	(63,875)	(248,934)
Fair value gain recorded in:			
Other comprehensive income	57,842	-	57,842
Amortisation	-	(151)	(151)
Accretion	-	170	170
Effect of movement in exchange rates	102	122	224

7. Other investments (continued)

(d) Carrying values of financial instruments (continued)

	AFS RM'000	HTM RM'000	Total RM'000
At 31 December 2016/ 1 January 2017	889,779	243,203	1,132,982
Addition/ Dividend	886	48,170	49,056
Disposal/ Maturity/ Repayment	(12,416)	(71,773)	(84,189)
Fair value gain recorded in:			
Other comprehensive income	49,263	-	49,263
Amortisation	-	(75)	(75)
Accretion	-	12	12
Effect of movement in exchange rates	(156)	(194)	(350)
At 31 December 2017	927,356	219,343	1,146,699
Company			
At 1 January 2016	967,568	10,000	977,568
Addition/ Dividend	8,274	-	8,274
Disposal/ Maturity/ Repayment	(185,059)	-	(185,059)
Fair value gain recorded in:			
Other comprehensive income	56,106	-	56,106
At 31 December 2016/ 1 January 2017	846,889	10,000	856,889
Addition/ Dividend	225	-	225
Disposal/ Maturity/ Repayment	(9,970)	-	(9,970)
Fair value gain recorded in:			
Other comprehensive income	46,436	-	46,436
At 31 December 2017	883,580	10,000	893,580

8. Reinsurance assets

	Note	Group	
		2017 RM'000	2016 RM'000
Reinsurance of insurance contracts			
Claims liabilities	13	462,260	477,378
Premium liabilities	13	230,531	207,657
		692,791	685,035

NOTES TO THE FINANCIAL STATEMENTS

9(a). Loans and receivables, excluding insurance receivables

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Staff loans					
Receivable within twelve months		3,428	3,559	-	-
Receivable after twelve months		30,796	34,859	-	-
		34,224	38,418	-	-
Fixed and call deposits with licensed financial institutions with maturity more than three months					
Licensed banks in Malaysia		1,153,336	980,713	100,100	137,760
Banks outside Malaysia		132,916	143,837	-	-
		1,286,252	1,124,550	100,100	137,760
Other receivables					
Due from Malaysian					
Motor Insurance Pool		60,750	62,721	-	-
Allowance for impairment	33.4	(1,530)	(1,052)	-	-
		59,220	61,669	-	-
Other receivables, deposits and prepayments		12,690	8,435	55	8
Income due and accrued		26,966	23,590	1,756	3,214
		98,876	93,694	1,811	3,222
Total loans and receivables		1,419,352	1,256,662	101,911	140,982

Included in the fixed and call deposits are RM80,566,000 (2016: RM73,982,000) held as cash collateral for guarantees issued on behalf of policyholders (note 17).

The following loans and receivables mature after 12 months:

	Group	
	2017 RM'000	2016 RM'000
Loans and receivables	50,657	47,466

Estimation of fair values

The fair values of the staff loans were determined to approximate the carrying amounts as these are immaterial in the context of the financial statements. The carrying amounts of the fixed and call deposits approximate their fair values.

9(b). Insurance receivables

	Note	Group	
		2017 RM'000	2016 RM'000
Due premiums including agents, brokers and co-insurers balances		120,845	120,785
Due from reinsurers and cedants		35,572	37,583
		156,417	158,368
Allowance for impairment	33.4	(38)	(7,640)
		156,379	150,728

10. Deferred acquisition costs

	Note	Group	
		2017 RM'000	2016 RM'000
Gross of reinsurance			
At 1 January		76,380	75,485
Movement during the year	23	3,816	789
Effect of movement in exchange rates		(148)	106
At 31 December		80,048	76,380
Reinsurance			
At 1 January		(45,929)	(41,945)
Movement during the year	23	(650)	(3,885)
Effect of movement in exchange rates		181	(99)
At 31 December		(46,398)	(45,929)
Net of reinsurance			
At 1 January		30,451	33,540
Movement during the year		3,166	(3,096)
Effect of movement in exchange rates		33	7
At 31 December		33,650	30,451

NOTES TO THE FINANCIAL STATEMENTS

11. Cash and cash equivalents

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash and bank balances	22,126	28,346	98	111
Fixed and call deposits with licensed financial institutions with maturity less than three months				
Licensed banks in Malaysia	216,962	304,171	62,978	90,464
Banks outside Malaysia	3,939	-	-	-
Liquid investment	51,432	-	-	-
	294,459	332,517	63,076	90,575

The carrying amounts approximate their fair values due to the relatively short-term nature of these financial instruments.

Included in the fixed and call deposits are RM644,000 (2016: RM1,310,000) held as cash collateral for guarantees issued on behalf of policyholders (note 17).

The Directors regard the highly liquid investments as cash and cash equivalents in view of its high liquidity and insignificant risk of changes in value.

12. Capital and reserves

12.1 Share capital

	Group and Company			
	2017		2016	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Ordinary shares, issued and fully paid:				
At 1 January	331,986	331,986	331,986	331,986
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016	6,258	-	-	-
At 31 December	338,244	331,986	331,986	331,986

Included in share capital is share premium amounting to RM6,258,000 that is available to be utilised in accordance with Section 618(3) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74 of Companies Act 2016).

12. Capital and reserves (continued)

12.1 Share capital (continued)

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

12.2 Share premium

Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares. The new Companies Act 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. Accordingly, the share premium has been transferred and become part of the Company's share capital (see note 12.1).

12.3 Foreign currency translation reserve

The foreign currency translation reserve is in respect of exchange differences arising from the translation of the financial statement of a subsidiary's Singapore Branch and the financial statement of the associated company.

12.4 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of the available-for-sale financial assets until the investments are derecognised or impaired.

13. Insurance contract liabilities

	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
General insurance	1,636,422	(692,791)	943,631	1,609,458	(685,035)	924,423

NOTES TO THE FINANCIAL STATEMENTS

13. Insurance contract liabilities (continued)

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

Group	Note	2017			2016		
		Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Provision for claims reported by policyholders		704,706	(368,354)	336,352	718,060	(382,525)	335,535
Provision for IBNR		216,080	(93,906)	122,174	215,584	(94,853)	120,731
Provision for outstanding claims 13.1		920,786	(462,260)	458,526	933,644	(477,378)	456,266
Provision for unearned premiums 13.3		715,636	(230,531)	485,105	675,814	(207,657)	468,157
		1,636,422	(692,791)	943,631	1,609,458	(685,035)	924,423
			Note 8			Note 8	

13.1 Provision for outstanding claims

Group	Note	2017			2016		
		Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January		933,644	(477,378)	456,266	967,172	(509,902)	457,270
Claims incurred for the current accident year (direct and facultative)		636,799	(265,151)	371,648	540,472	(213,029)	327,443
Adjustment to claims incurred in prior accident years (direct and facultative)		(138,992)	92,286	(46,706)	(36,468)	2,911	(33,557)
Claims incurred during the year (treaty inwards claims)		2,339	-	2,339	(5,145)	-	(5,145)
Movement in PRAD of claims liabilities at 75% confidence level		294	58	352	(2,363)	6,406	4,043
Movement in claims handling expenses		78	-	78	1,368	-	1,368
Claims paid during the year	25	(510,816)	187,144	(323,672)	(533,068)	236,822	(296,246)
Effect of movement in exchange rates		(2,560)	781	(1,779)	1,676	(586)	1,090
At 31 December	13.2	920,786	(462,260)	458,526	933,644	(477,378)	456,266

13. Insurance contract liabilities (continued)

13.2 Provision for outstanding claims by business

Group	Note	2017			2016		
		Motor RM'000	Non-Motor RM'000	Total RM'000	Motor RM'000	Non-Motor RM'000	Total RM'000
Gross claims	32	335,297	585,489	920,786	336,553	597,091	933,644
Reinsurance		(50,551)	(411,709)	(462,260)	(57,443)	(419,935)	(477,378)
Net claims	32	284,746	173,780	458,526	279,110	177,156	456,266

13.3 Provision for unearned premiums

Group	2017			2016		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January	675,814	(207,657)	468,157	686,846	(223,409)	463,437
Premiums written during the year	1,421,339	(553,838)	867,501	1,278,339	(506,668)	771,671
Premiums earned during the year	(1,380,627)	530,473	(850,154)	(1,290,021)	522,724	(767,297)
Effect of movement in exchange rates	(890)	491	(399)	650	(304)	346
At 31 December	715,636	(230,531)	485,105	675,814	(207,657)	468,157

13.4 Significant changes in accounting estimates

As explained in note 2(k), during the financial year, 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.

NOTES TO THE FINANCIAL STATEMENTS

13. Insurance contract liabilities (continued)

13.4 Significant changes in accounting 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 year are as follows:

Statement of Financial Position	Based on previous method RM'000	Based on revised method RM'000	Financial Impacts RM'000
<u>Provision for unearned premiums</u>			
Gross	777,787	715,636	(62,151)
Reinsurance	(256,859)	(230,531)	26,328
Net	520,928	485,105	(35,823)
 Statement of Profit or Loss			
Gross earned premiums	1,318,476	1,380,627	62,151
Premium ceded to reinsurers	(504,145)	(530,473)	(26,328)
Net earned premiums	814,331	850,154	35,823

14. Deferred tax liabilities

Recognised deferred tax liabilities

Recognised deferred tax liabilities are attributable to the following:

	Group	
	2017 RM'000	2016 RM'000
Available-for-sale financial assets	1,001	944

Movement in temporary differences during the financial year

	Note	2017 RM'000	2016 RM'000
As at 1 January		944	780
Movement during the year	28	(75)	155
Effect of movement in exchange rates		132	9
As at 31 December		1,001	944

15. Finance lease liabilities

Finance lease liabilities are payable as follows:

Group

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2017	2017	2017	2016	2016	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Less than one year	203	34	169	-	-	-
Between one and five years	790	60	730	-	-	-
	993	94	899	-	-	-

16. Insurance payables

	Group	
	2017	2016
	RM'000	RM'000
Due to reinsurers and cedants	99,630	57,559
Due to agents, brokers, co-insurers and insured	22,264	22,245
	121,894	79,804

The carrying amounts disclosed above approximate their fair values at the end of the reporting period.

17. Other payables

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash collateral deposit received from policyholders	85,074	79,340	-	-
Deposit premiums	1,449	1,464	-	-
Other payables	8,121	8,330	-	-
Accrued expenses	16,173	16,240	1,198	867
	110,817	105,374	1,198	867

The carrying amounts disclosed above approximate their fair values at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

18. Operating revenue

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Gross earned premiums	19	1,380,627	1,290,021	-	-
Dividend income		28,191	33,876	195,414	187,974
Interest income (net of amortisation of premiums and accretion of discounts)		60,972	54,137	7,807	8,292
Rental of premises	20	841	858	-	-
		1,470,631	1,378,892	203,221	196,266

19. Underwriting results of insurance fund

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Gross written premiums		560,300	521,159	297,550	295,015	78,110	95,857	485,379	366,308	1,421,339	1,278,339
Change in unearned premiums provision		23,362	(19,612)	9,701	21,510	2,932	2,700	(76,707)	7,084	(40,712)	11,682
Gross earned premiums	18	583,662	501,547	307,251	316,525	81,042	98,557	408,672	373,392	1,380,627	1,290,021
Gross written premiums ceded to reinsurers		(188,266)	(185,084)	(27,947)	(52,459)	(60,547)	(78,523)	(277,078)	(190,602)	(553,838)	(506,668)
Change in unearned premiums provision		(19,585)	5,990	(15,229)	(8,346)	(2,522)	(2,259)	60,701	(11,441)	23,365	(16,056)
Premiums ceded to reinsurers		(207,851)	(179,094)	(43,176)	(60,805)	(63,069)	(80,782)	(216,377)	(202,043)	(530,473)	(522,724)
Net earned premiums		375,811	322,453	264,075	255,720	17,973	17,775	192,295	171,349	850,154	767,297
Net claims incurred	25	(56,361)	(62,549)	(187,433)	(164,986)	(5,036)	(7,325)	(78,881)	(59,292)	(327,711)	(294,152)
Commission income	23	48,629	44,761	7,702	11,311	5,462	5,455	56,767	47,391	118,560	108,918
Commission expense	23	(72,027)	(60,836)	(29,104)	(31,347)	(4,552)	(4,536)	(57,113)	(50,318)	(162,796)	(147,037)
Net commission		(23,398)	(16,075)	(21,402)	(20,036)	910	919	(346)	(2,927)	(44,236)	(38,119)
Total out-go		(79,759)	(78,624)	(208,835)	(185,022)	(4,126)	(6,406)	(79,227)	(62,219)	(371,947)	(332,271)
Underwriting surplus before management expenses		296,052	243,829	55,240	70,698	13,847	11,369	113,068	109,130	478,207	435,026
Management expenses of the insurance fund										(172,394)	(156,533)
Underwriting surplus after management expenses										305,813	278,493
Net claims incurred ratio (%)		15.0	19.4	71.0	64.5	28.0	41.2	41.0	34.6	38.5	38.3

20. Investment income

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Available-for-sale financial assets					
Dividend income					
- Equity securities quoted in Malaysia		26,359	29,006	25,414	27,974
- Equity securities quoted outside Malaysia		117	137	-	-
- Unquoted equity securities in Malaysia		59	71	-	-
- Unquoted subsidiary		-	-	170,000	160,000
- Unit trust		170	269	-	-
- Real estate investment trusts (REITs)		54	-	-	-
Held-to-maturity financial assets					
Interest/ profit income					
- Malaysian government Securities		115	1,308	-	-
- Malaysian government guaranteed loans		1,634	1,296	-	-
- Singapore government Securities		-	39	-	-
- Corporate bonds and sukuk		9,967	10,572	750	752
Amortisation of premiums, net of accretion of discounts		(63)	19	-	-
Rental of properties received from third parties	4, 18	841	858	-	-
Loans and receivables and cash and cash equivalents					
Dividend income					
- Liquid investments		1,432	4,393	-	-
Interest/ profit income		49,319	40,903	7,057	7,540
Total investment income		90,004	88,871	203,221	196,266

NOTES TO THE FINANCIAL STATEMENTS

21. Realised gains and losses

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Realised gains/ (losses) for:				
Gain on disposal plant and equipment	453	-	-	-
Available-for-sale financial assets				
Equity securities in corporations				
- Quoted in Malaysia	2,513	150,356	1,471	127,645
Cash and cash equivalents				
Liquid investment	-	(74)	-	-
	2,966	150,282	1,471	127,645

22. Fair value gains and losses

	Note	Group	
		2017 RM'000	2016 RM'000
Investment properties	4	-	(1,364)
Available-for-sale financial assets			
Equity securities in corporations			
- Quoted outside Malaysia		-	(902)
		-	(2,266)

23. Commission income/ (expense)

	Note	Group	
		2017 RM'000	2016 RM'000
Commission income			
Commission income		119,210	112,803
Movement in deferred acquisition costs	10	(650)	(3,885)
	19	118,560	108,918
Commission expense			
Commission expense		(166,612)	(147,826)
Movement in deferred acquisition costs	10	3,816	789
	19	(162,796)	(147,037)

24. Other operating income

	2017 RM'000	2016 RM'000
Group		
Interest on staff car loans	135	187
Interest on staff housing loans	803	846
Interest on bank balance	6	3
Sundry income	6,961	6,966
	7,905	8,002
Company		
Secretarial fees earned	59	-

25. Net claims incurred

	Note	Group 2017 RM'000	2016 RM'000
Gross claims paid less salvage		510,816	533,068
Claims ceded to reinsurers		(187,144)	(236,822)
Net claims paid		323,672	296,246
Gross change in claims liabilities:			
At 31 December		920,786	933,644
At 1 January		(933,644)	(967,172)
Effect of movement in exchange rates		2,560	(1,676)
		(10,298)	(35,204)
Change in contract liabilities ceded to reinsurers:			
At 31 December		(462,260)	(477,378)
At 1 January		477,378	509,902
Effect of movement in exchange rates		(781)	586
		14,337	33,110
	19	327,711	294,152

NOTES TO THE FINANCIAL STATEMENTS

26. Management expenses

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Personnel expenses (including key management personnel)					
- Directors' fees		2,253	1,757	965	545
- Directors' remuneration		2,545	2,222	2,187	1,898
- Wages, salaries and others		95,437	86,904	541	3,042
- Contributions to Employees' Provident Fund		11,552	10,601	65	367
		111,787	101,484	3,758	5,852
Auditors' remuneration					
Auditors of the Company					
- Statutory audit		392	392	90	90
- Other services		149	104	19	5
Affiliates of auditors of the Company					
- Statutory audit		376	383	-	-
- Other services		90	-	-	-
Allowance for impairment loss on insurance receivables		485	4,339	-	-
Reversal of impairment loss on insurance receivables		(3,400)	-	-	-
Allowance for impairment loss on other receivables		408	15	-	-
Depreciation of plant and equipment	3	3,185	3,560	122	51
Rental expense on office premises		6,460	6,307	40	-
Realised foreign exchange loss/ (gain)		99	(61)	-	-
Unrealised foreign exchange loss/ (gain)		215	(585)	-	-
Write off of plant and equipment		3	-	-	-
Other expenses		57,570	47,475	1,666	871
Total management expenses		177,819	163,413	5,695	6,869

27. Key management personnel compensation

The total remuneration (including benefits-in-kind) of the Chief Executive Officers and Directors are as follows:

Group	Fees RM'000	Salary RM'000	Bonus RM'000	EPF RM'000	Other RM'000	Benefits- in-kind RM'000	Total RM'000
2017							
Executive Director and Group Chief Executive Officer							
- Tan Kok Guan	270	936	1,017	234	23	39	2,519
Chief Executive Officer of subsidiary							
- Looi Kong Meng	-	648	570	146	-	35	1,399
Non-Executive Directors							
- Tan Sri Dato' Sri Dr. Teh Hong Piow	670	-	-	-	11	30	711
- Tee Choon Yeow	415	-	-	-	71	-	486
- Lee Chin Guan	270	-	-	-	71	-	341
- Quah Poh Keat	270	-	-	-	71	-	341
- Chan Kwai Hoe	270	-	-	-	71	-	341
- Encik Mohd Suffian bin Haji Haron (appointed on 1 June 2017)	88	-	-	-	40	-	128
	1,983	-	-	-	335	30	2,348
Total Directors' remuneration (including benefits-in-kind)	2,253	936	1,017	234	358	69	4,867
Total Chief Executive Officers and Directors' remuneration (including benefits-in-kind)	2,253	1,584	1,587	380	358	104	6,266
2016							
Executive Director and Group Chief Executive Officer							
- Tan Kok Guan	220	846	849	203	23	31	2,172
Chief Executive Officer of subsidiary							
- Looi Kong Meng	-	588	469	127	-	27	1,211
Non-Executive Directors							
- Tan Sri Dato' Sri Dr. Teh Hong Piow	520	-	-	-	13	23	556
- Tee Choon Yeow	340	-	-	-	71	-	411
- Lee Chin Guan	220	-	-	-	71	-	291
- Quah Poh Keat	220	-	-	-	71	-	291
- Chan Kwai Hoe	220	-	-	-	71	-	291
- Dato' Haji Abdul Aziz bin Dato' Dr. Omar (retired on 28 Jan 2016)	17	-	-	-	4	-	21
	1,537	-	-	-	301	23	1,861
Total Directors' remuneration (including benefits-in-kind)	1,757	846	849	203	324	54	4,033
Total Chief Executive Officers and Directors' remuneration (including benefits-in-kind)	1,757	1,434	1,318	330	324	81	5,244

NOTES TO THE FINANCIAL STATEMENTS

27. Key management personnel compensation (continued)

Company	Fees RM'000	Salary RM'000	Bonus RM'000	EPF RM'000	Other RM'000	Benefits- in-kind RM'000	Total RM'000
2017							
Executive Director and Chief Executive Officer							
- Tan Kok Guan	120	936	1,017	234	-	39	2,346
Non-Executive Directors							
- Tan Sri Dato' Sri Dr. Teh Hong Piow	300	-	-	-	-	-	300
- Tee Choon Yeow	185	-	-	-	-	-	185
- Lee Chin Guan	120	-	-	-	-	-	120
- Quah Poh Keat	120	-	-	-	-	-	120
- Chan Kwai Hoe	120	-	-	-	-	-	120
	845	-	-	-	-	-	845
Total Chief Executive Officer and Directors' remuneration (including benefits-in-kind)	965	936	1,017	234	-	39	3,191
2016							
Executive Director and Chief Executive Officer							
- Tan Kok Guan	70	846	849	203	-	15	1,983
Non-Executive Directors							
- Tan Sri Dato' Sri Dr. Teh Hong Piow	150	-	-	-	-	-	150
- Tee Choon Yeow	110	-	-	-	-	-	110
- Lee Chin Guan	70	-	-	-	-	-	70
- Quah Poh Keat	70	-	-	-	-	-	70
- Chan Kwai Hoe	70	-	-	-	-	-	70
- Dato' Haji Abdul Aziz bin Dato' Dr. Omar (retired on 28 Jan 2016)	5	-	-	-	-	-	5
	475	-	-	-	-	-	475
Total Chief Executive Officer and Directors' remuneration (including benefits-in-kind)	545	846	849	203	-	15	2,458

28. Tax expense

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Recognised in profit or loss					
Current tax expense					
Malaysian					
- current year		91,270	83,456	2,200	1,955
- prior years		(1,407)	(1,597)	(24)	(4)
Overseas					
- prior years		92	(157)	-	-
		89,955	81,702	2,176	1,951
Share of tax of equity accounted associated company		207	236	-	-
Total income tax expense		90,162	81,938	2,176	1,951
Reconciliation of tax expense					
Profit for the year		313,794	437,223	196,880	315,091
Total taxation		90,162	81,938	2,176	1,951
Profit excluding tax		403,956	519,161	199,056	317,042
Income tax using Malaysian tax rate of 24% (2016: 24%)		96,949	124,599	47,773	76,090
Effect of lower tax rates for offshore business and business outside Malaysia		(1,750)	(1,824)	-	-
Difference in effective tax rate of equity accounted associated company		(440)	(402)	-	-
Non-deductible expense		1,937	3,815	1,326	1,618
Tax exempt income		(7,252)	(44,895)	(46,899)	(75,753)
Other items		2,033	2,399	-	-
		91,477	83,692	2,200	1,955
Over provision in prior years		(1,315)	(1,754)	(24)	(4)
Tax expense		90,162	81,938	2,176	1,951
Recognised in equity					
Available-for-sale financial assets					
- Deferred tax	14	75	(155)	-	-

NOTES TO THE FINANCIAL STATEMENTS

29. Earnings per ordinary share - Group

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to owners of the Company of RM313,794,000 (2016: RM437,223,000) and the weighted average number of ordinary shares outstanding during the year of 331,986,000 (2016: 331,986,000).

30. Dividends

Dividends recognised in the current year by the Company as appropriation of profits are as follows:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2017			
Second interim 2016 ordinary	55.00	182,592	2 March 2017
First interim 2017 ordinary	27.00	89,636	2 August 2017
Total amount		<u>272,228</u>	
2016			
Second interim 2015 ordinary	50.00	165,993	24 February 2016
First interim 2016 ordinary	25.00	82,996	3 August 2016
Total amount		<u>248,989</u>	

After the reporting period the following dividends were proposed by the Directors:

	Group and Company	
	Sen per share	Total amount RM'000
Second interim single tier	45.00	149,394

The dividend will be payable on 6 February 2018 and will be recognised in subsequent financial period. The Directors do not propose any final dividend for the financial year ended 31 December 2017.

31. 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.

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

	General insurance		Investment holding		Total	
	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Business segments						
External revenue	1,437,410	1,342,626	33,221	36,266	1,470,631	1,378,892
Inter-segment revenue	-	-	170,000	160,000	170,000	160,000
Total revenue	1,437,410	1,342,626	203,221	196,266	1,640,631	1,538,892
Segment profit before tax	374,341	339,172	199,408	339,753	573,749	678,925
Segment assets	2,755,613	2,567,110	1,259,002	1,289,003	4,014,615	3,856,113
Segment liabilities	1,891,863	1,817,338	1,841	1,459	1,893,704	1,818,797

NOTES TO THE FINANCIAL STATEMENTS

31. Operating segment (continued)

	Malaysia		Outside Malaysia		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000

Geographical segments by location of customers/ assets

Revenue from external customers	1,397,707	1,289,292	72,924	89,600	-	-	1,470,631	1,378,892
Segment assets	3,603,661	3,426,636	307,126	321,064	(96,172)	(91,587)	3,814,615	3,656,113

Reconciliation of reportable segment revenue, profit and assets

	2017 RM'000	2016 RM'000
Revenue		
Total revenue for reportable segments	1,640,631	1,538,892
Elimination of inter-segment revenue	(170,000)	(160,000)
Consolidated revenue	1,470,631	1,378,892
Profit		
Total profit for reportable segments	573,749	678,925
Elimination of inter-segment profit	(170,000)	(160,000)
Consolidated profit before tax	403,749	518,925
Assets		
Total assets for reportable segments	4,014,615	3,856,113
Elimination of inter-segment assets	(200,000)	(200,000)
Consolidated assets	3,814,615	3,656,113

32. Insurance risk

The Group underwrites various general insurance contracts, which are mostly on an annual coverage and annual premium basis, with the exception of short-term policies such as Marine Cargo which covers the duration in which the cargo is being transported. Some of the policies are guaranteed renewable, such as the Medical products which are subject to a triennial review. The Group also underwrites some non-annual policies with coverage period more than one year such as Mortgage Reducing Personal Accident, Contractor's All Risk and Engineering, Bonds and Workmen Compensation. The majority of the insurance businesses written by the Group are Fire and Motor. Other major lines of business include Offshore Oil Related, Contractor's All Risk and Engineering, Medical Expenses, Liabilities and other miscellaneous classes.

32. Insurance risk (continued)

Insurance risk is the risk of financial losses arising from higher than expected claims amount and the inadequacy of insurance liabilities reserves. By underwriting insurance contracts, the Group takes on insurance risk by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The principal risk the Group faces under insurance contracts is that the actual claims and benefits payments differ from expectations; the risks arise from the fluctuations in timing, frequency and severity of claims; as well as the adequacy of premiums and reserves.

The Group is also exposed to risks arising from climate changes, natural disasters, terrorism activities and regulatory changes such as the phased liberalisation of motor and fire tariff. For longer tail claims that take some years to settle, there is also inflation risk.

The Group's objectives of managing insurance risks are to enhance the long-term financial performance of the business to achieve sustainable growth in profitability, strong asset quality and to continually optimise shareholders' value. The Group seeks to write those risks that it understands and that provide a reasonable opportunity to earn an acceptable profit.

The Group's underwriting strategy is intended to ensure that the risks underwritten are well diversified across a large portfolio of insurance contracts and geographical areas. The variability of risks is managed by the selection and implementation of underwriting strategic guidelines, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

The Group adopts the following measures to manage the insurance risks:

- The Group adopts an underwriting policy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility to ensure underwriting profitability. Acceptance of risk is guided by a set of underwriting guidelines, with set limits on underwriting capacity, and authority to individuals based on their specific expertise. Product Development, Pricing and Re-Pricing Policy has been established to provide a structured product development process to promote sound risk management practices in managing and controlling product and insurance risks.
- The Group has in place a claims management and control system to pay claims and control claim overpayment or fraud. The Group has claim review policies to assess new and ongoing claims. Reviews of claims handling procedures and investigation of possible fraudulent claims are conducted to reduce the risk exposure of the Group. The Group also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that may impact the business in a negative manner.
- The Group purchases reinsurance as part of its risks mitigation programme. The objectives for purchasing reinsurance are to provide market-leading capacity for the Group's customers while protecting the statement of financial position and optimising the Group's capital efficiency. Reinsurance is ceded on both proportional and non-proportional basis. The Group's placement of reinsurance is well diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

NOTES TO THE FINANCIAL STATEMENTS

32. Insurance risk (continued)

The table below sets out the concentration of the Group's general insurance business by type of product based on gross and net written premiums.

	2017			2016		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Motor	297,550	(27,947)	269,603	295,015	(52,459)	242,556
Fire	560,300	(188,266)	372,034	521,159	(185,084)	336,075
Marine, aviation and transit	78,110	(60,547)	17,563	95,857	(78,523)	17,334
Miscellaneous	485,379	(277,078)	208,301	366,308	(190,602)	175,706
	1,421,339	(553,838)	867,501	1,278,339	(506,668)	771,671

The table below sets out the concentration of the Group's insurance contract liabilities by type of product.

	2017			2016		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Motor	486,731	(60,456)	426,275	497,887	(82,641)	415,246
Fire	467,337	(216,464)	250,873	478,302	(224,551)	253,751
Marine, aviation and transit	85,484	(70,737)	14,747	107,374	(90,639)	16,735
Miscellaneous	596,870	(345,134)	251,736	525,895	(287,204)	238,691
	1,636,422	(692,791)	943,631	1,609,458	(685,035)	924,423

Key assumptions

The principal assumption underlying the estimation of liabilities is that the Group's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claims costs, claims handling cost and claims numbers for each accident year.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in the market and economic conditions, as well as internal factors, such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors may affect the estimates.

The recommended claims and premium liability provisions did not explicitly allow for discounting and inflation adjustment. Implicit inflation has been allowed for future claims to the extent evident in past claims development. Discounting is unlikely to result in any material impact due to the short tail nature of most classes coupled with the low prevailing interest rate environment.

The Group has based its risk margin for adverse deviation for the provisions for unexpired risks and insurance claims at a 75% level of sufficiency, according to the requirement set by Bank Negara Malaysia under the Risk-Based Capital ("RBC") Framework.

32. Insurance risk (continued)

Sensitivities

The actuary re-runs his valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Group's estimation process in respect of its insurance contracts. The information in the table below demonstrates the sensitivity of the insurance contract liabilities estimates to a defined movement in key assumptions of the estimation process.

The sensitivity analysis is performed across key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions may have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
2017					
Average claims cost	+10%	86,454	42,858	(42,858)	(32,572)
Average number of claims	+10%	61,942	40,060	(40,060)	(30,446)
Average claims settlement period	Increased by 6 months	21,362	10,584	(10,584)	(8,044)
2016					
Average claims cost	+10%	86,829	41,282	(41,282)	(31,374)
Average number of claims	+10%	64,822	38,916	(38,916)	(29,576)
Average claims settlement period	Increased by 6 months	21,443	10,049	(10,049)	(7,637)

* Impact on equity reflects adjustments for tax, when applicable.

Claims development table

The following tables show the Group's estimate of cumulative incurred claims for its Motor and Non-motor business, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date. The cumulative claims estimates and cumulative payments for Singapore are translated to RM at the rate of exchange that applied at the end of the financial year.

While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating any redundancies or deficiencies of the past on current unpaid claim balances.

The management of the Group believes that the estimate of total claims outstanding as of 31 December 2017 is adequate. However, due to the inherent uncertainties in the future development of claims, it cannot be fully assured that such balances will ultimately prove to be adequate.

NOTES TO THE FINANCIAL STATEMENTS

32. Insurance risk (continued)

Gross general insurance contract liabilities for 2017:

Group - Motor

[illegible]

[illegible]

NOTES TO THE FINANCIAL STATEMENTS

32. Insurance risk (continued)

Gross general insurance contract liabilities for 2017:

Group - Non-motor

[illegible]

[illegible]

NOTES TO THE FINANCIAL STATEMENTS

32. Insurance risk (continued)

Net general insurance contract liabilities for 2017:

Group - Motor

[illegible]

[illegible]

NOTES TO THE FINANCIAL STATEMENTS

32. Insurance risk (continued)

Net general insurance contract liabilities for 2017:

Group - Non-Motor

[illegible]

[illegible]

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments

33.1 Categories of financial instruments

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

- (a) Loans and receivables ("L&R");
- (b) Available-for-sale financial assets ("AFS");
- (c) Held-to-maturity financial assets ("HTM"); and
- (d) Other financial liabilities measured at amortised cost ("FL").

2017	Carrying amount RM'000	L&R/ (FL) RM'000	AFS RM'000	HTM RM'000
Financial assets				
Group				
Other investments	1,146,699	-	927,356	219,343
Reinsurance assets	368,354	368,354	-	-
Loans and receivables, excluding insurance receivables	1,419,352	1,419,352	-	-
Insurance receivables	156,379	156,379	-	-
Cash and cash equivalents	294,459	294,459	-	-
	3,385,243	2,238,544	927,356	219,343
Company				
Other investments	893,580	-	883,580	10,000
Loans and receivables, excluding insurance receivables	101,911	101,911	-	-
Cash and cash equivalents	63,076	63,076	-	-
	1,058,567	164,987	883,580	10,000
Financial liabilities				
Group				
Provision for outstanding claims	(704,706)	(704,706)	-	-
Finance lease liabilities	(899)	(899)	-	-
Insurance payables	(121,894)	(121,894)	-	-
Other payables	(110,817)	(110,817)	-	-
	(938,316)	(938,316)	-	-
Company				
Other payables	(1,198)	(1,198)	-	-

33. Financial instruments (continued)

33.1 Categories of financial instruments (continued)

2016	Carrying amount RM'000	L&R/ (FL) RM'000	AFS RM'000	HTM RM'000
Financial assets				
Group				
Other investments	1,132,982	-	889,779	243,203
Reinsurance assets	382,525	382,525	-	-
Loans and receivables, excluding insurance receivables	1,256,662	1,256,662	-	-
Insurance receivables	150,728	150,728	-	-
Cash and cash equivalents	332,517	332,517	-	-
	3,255,414	2,122,432	889,779	243,203
Company				
Other investments	856,889	-	846,889	10,000
Loans and receivables, excluding insurance receivables	140,982	140,982	-	-
Cash and cash equivalents	90,575	90,575	-	-
	1,088,446	231,557	846,889	10,000
Financial liabilities				
Group				
Provision for outstanding claims	(718,060)	(718,060)	-	-
Insurance payables	(79,804)	(79,804)	-	-
Other payables	(105,374)	(105,374)	-	-
	(903,238)	(903,238)	-	-
Company				
Other payables	(867)	(867)	-	-

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

33.2 Net gains and losses arising from financial instruments

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net gains/ (losses) arising on:				
Available-for-sale financial assets				
- recognised in other comprehensive income	49,263	57,842	46,436	56,106
- reclassified from equity to profit or loss	(2,513)	(149,463)	(1,471)	(127,645)
- recognised in profit or loss	29,272	178,946	26,885	155,619
	76,022	87,325	71,850	84,080
Held-to-maturity financial assets	11,653	13,234	750	752
Loans and receivables	53,888	42,550	7,057	7,540
Financial liabilities measured at amortised cost	(3)	-	-	-
	141,560	143,109	79,657	92,372

33.3 Financial risk management

The Group and the Company are exposed to a variety of financial risks that includes credit risk, liquidity risk, market risk (currency risk, interest rate risk, price risk) and operational risk. The Group's and the Company's overall financial risk management objective is to ensure that the Group and the Company create value for its shareholders whilst minimising potential exposure to adverse effects on their financial performance and positions.

The Group and the Company are guided by risk management policies which set out the overall business strategies and the general risk management philosophy.

The Group and the Company have established internal processes to monitor the risks on an ongoing basis.

The policies and measures taken by the Group and the Company to manage these risks are as set out below.

33.4 Credit risk

Credit risk is the risk of financial loss resulting from the failure of a customer, an intermediary or counterparty to settle its financial and contractual obligations to the Group and the Company as and when they fall due.

The Group's and the Company's primary exposure to credit risk arises through their investment in fixed income securities, receivables arising from sales of insurance policies, and obligations of reinsurers through reinsurance contracts.

33. Financial instruments (continued)

33.4 Credit risk (continued)

The Group and the Company have put in place credit policies and investment guidelines as a part of its overall credit risk management framework. The Group and the Company manage individual exposures as well as concentration of credit risks. At end of the reporting period, there was no significant concentration of credit risks, other than:

- (i) investments in corporate bonds and sukuk issued by five issuers amounted to RM129,988,000 (2016: RM149,977,000) and RM10,000,000 (2016: RM10,000,000) for the Group and the Company respectively; and
- (ii) bank balances and deposits placed with five banks amounted to RM767,835,000 (2016: RM812,126,000) and RM142,198,000 (2016: RM225,871,000) for the Group and the Company respectively.

Evaluation of an issuer's credit risk is undertaken by the Investment Unit of the Accounts and Finance Department. The Group and the Company use the ratings assigned by external rating agencies to assess issuer's credit risk. Monitoring of credit and concentration risk is carried out by the Accounts and Finance Department which reports to the Investment Committee and is supported by the Enterprise Risk Management Department.

Cash and deposits in Malaysia are generally placed with banks and financial institutions licensed under the Financial Services Act 2013 and Islamic Financial Services Act 2013 which are regulated by Bank Negara Malaysia whereas cash and deposits in Singapore are generally placed with banks and financial institutions licensed under the Financial Advisers Act which is regulated by Monetary Authority of Singapore.

Receivables arising from insurance and reinsurance contracts are monitored by the Credit Control Committee and Credit Control Unit of the Accounts and Finance Department to ensure adherence to the Group's and the Company's credit policy. As part of the overall risk management strategy, the Group and the Company cede insurance risk through proportional and non-proportional treaties and facultative arrangement.

The Group and the Company monitor the credit quality and financial conditions of its reinsurers on an ongoing basis and review its reinsurance arrangements periodically. The Group and the Company typically cede business to reinsurers that have a good credit rating and concentration of risk is avoided by policy guidelines in respect of counterparties' limit that are set each year by the Board of Directors. When selecting their reinsurers, the Group and the Company consider their relative financial security. The security of the reinsurer is assessed based on public rating information and annual reports.

The Group's and the Company's credit risk exposure to insurance receivable arise from business with their appointed agents, brokers and other intermediaries. The risk arises where these parties collect premiums from customers to be paid to the Group and the Company. The Group and the Company have policies to monitor credit risk from these receivables with a focus on day-to-day monitoring of the outstanding position by the credit control staff. The Group and the Company also have guidelines to evaluate intermediaries before their appointment as well as setting credit terms to these appointees.

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

33.4 Credit risk (continued)

Credit exposure by credit quality

The table below provides information regarding the credit risk exposure of the Group and the Company by classifying assets according to the Group's and the Company's credit ratings of counterparties.

	Neither past due nor impaired			
	Investment Grade	Non-rated	Past due but not impaired	Total
	RM'000	RM'000	RM'000	RM'000
Group				
2017				
Other investments:				
Held-to-maturity financial assets	219,343	-	-	219,343
Reinsurance assets	343,027	25,327	-	368,354
Loans and receivables, excluding insurance receivables	1,150,251	269,101	-	1,419,352
Insurance receivables	23,831	119,321	13,227	156,379
Cash and cash equivalents	237,006	57,453	-	294,459
	1,973,458	471,202	13,227	2,457,887
2016				
Other investments:				
Held-to-maturity financial assets	243,203	-	-	243,203
Reinsurance assets	332,321	50,204	-	382,525
Loans and receivables, excluding insurance receivables	957,550	299,112	-	1,256,662
Insurance receivables	26,535	108,866	15,327	150,728
Cash and cash equivalents	323,140	9,377	-	332,517
	1,882,749	467,559	15,327	2,365,635
Company				
2017				
Other investments:				
Held-to-maturity financial assets	10,000	-	-	10,000
Loans and receivables, excluding insurance receivables	100,100	1,811	-	101,911
Cash and cash equivalents	63,076	-	-	63,076
	173,176	1,811	-	174,987

33. Financial instruments (continued)

33.4 Credit risk (continued)

Credit exposure by credit quality (continued)

	Neither past due nor impaired			Total RM'000
	Investment Grade	Non-rated	Past due but not impaired	
	RM'000	RM'000	RM'000	
Company				
2016				
Other investments:				
Held-to-maturity financial assets	10,000	-	-	10,000
Loans and receivables, excluding insurance receivables	137,760	3,222	-	140,982
Cash and cash equivalents	90,575	-	-	90,575
	238,335	3,222	-	241,557

The table below provides information regarding the credit risk exposure of the Group and the Company by classifying assets according to the reputable rating agencies' credit ratings of counterparties. AAA is the highest possible rating.

Group	AAA	AA	A	BBB	Non-rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017						
Other investments:						
Held-to-maturity financial assets	45,055	134,992	39,296	-	-	219,343
Reinsurance assets	-	85,473	257,390	164	25,327	368,354
Loans and receivables, excluding insurance receivables	352,930	377,768	336,553	83,000	269,101	1,419,352
Insurance receivables	-	10,667	13,164	-	132,548	156,379
Cash and cash equivalents	156,682	13,062	47,262	20,000	57,453	294,459
	554,667	621,962	693,665	103,164	484,429	2,457,887
2016						
Other investments:						
Held-to-maturity financial assets	54,570	163,633	25,000	-	-	243,203
Reinsurance assets	-	101,336	230,814	171	50,204	382,525
Loans and receivables, excluding insurance receivables	364,520	274,350	235,680	83,000	299,112	1,256,662
Insurance receivables	-	8,315	18,217	3	124,193	150,728
Cash and cash equivalents	199,875	65,374	33,891	24,000	9,377	332,517
	618,965	613,008	543,602	107,174	482,886	2,365,635

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

33.4 Credit risk (continued)

Company	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
2017						
Other investments:						
Held-to-maturity financial assets	-	10,000	-	-	-	10,000
Loans and receivables, excluding insurance receivables	84,100	-	16,000	-	1,811	101,911
Cash and cash equivalents	49,098	-	13,978	-	-	63,076
	133,198	10,000	29,978	-	1,811	174,987
2016						
Other investments:						
Held-to-maturity financial assets	-	10,000	-	-	-	10,000
Loans and receivables, excluding insurance receivables	137,760	-	-	-	3,222	140,982
Cash and cash equivalents	60,111	28,000	2,464	-	-	90,575
	197,871	38,000	2,464	-	3,222	241,557

Age analysis of financial assets past due but not impaired

A financial asset is deemed past due when the counterparty has failed to make payment when the outstanding amount are contractually due.

Group	<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
2017						
Insurance receivables	7,292	3,437	2,364	134	-	13,227
2016						
Insurance receivables	7,677	3,981	944	1,535	1,190	15,327

33. Financial instruments (continued)

33.4 Credit risk (continued)

Impaired financial assets

The Group records impairment allowance for reinsurance assets, insurance receivables and other receivables in separate allowance for impairment loss accounts. A reconciliation of the allowance for impairment losses for reinsurance assets, insurance receivables and other receivables are as follows:

Company	Reinsurance assets		Insurance receivables		Other receivables	
	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	6,172	6,797	7,640	3,281	1,052	1,037
Additional allowance during the year	-	-	485	4,339	408	15
Reversal of impairment loss	-	-	(3,400)	-	-	-
Bad debts written off against impairment allowance	(6,156)	(647)	(4,601)	-	-	-
Effect of movement in exchange rates	(16)	22	(86)	20	-	-
Effect of withdrawal of member from Malaysian Motor Insurance Pool	-	-	-	-	70	-
At 31 December	-	6,172	38	7,640	1,530	1,052

33.5 Liquidity risk

Liquidity risk is the risk that the Group and the Company may not have sufficient liquid financial resources to meet their obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Group's and the Company's policy is to maintain adequate liquidity to meet their liquidity needs under normal and stressed conditions.

The following policies and procedures are in place to mitigate the Group's and the Company's exposure to liquidity risk:

- A Group and Company-wide liquidity risk management policy setting out the assessment and determination of what constitutes liquidity risk for the Group and the Company is established. Compliance with the policy is monitored and reported monthly and exposures and breaches are reported to the Group's and the Company's Risk Management and Compliance Committee ("RMCC") as soon as possible. The Group's and the Company's Investment Committee is the primary party responsible for liquidity management based on guidelines approved by the Board.
- There are guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance and investment contract obligations. As part of their liquidity management, the Group and the Company maintain sufficient level of cash and cash equivalents to meet expected and to a lesser extent unexpected outflows.

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

33.5 Liquidity risk (continued)

The following policies and procedures are in place to mitigate the Group's and the Company's exposure to liquidity risk: (continued)

- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans. The Group's and the Company's contingency funding plans include arranging credit line with banks and funding from the shareholders.
- The Group's and the Company's treaty reinsurance contract contains a "cash call" clause permitting the Group and the Company to make cash call on claim and receive immediate payment for a large loss without waiting for usual periodic payment procedures to occur.

Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Group and the Company based on remaining undiscounted contractual obligations, including interest/ profit payable.

For insurance contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities.

	Carrying value RM'000	Contractual interest rate	Up to a year* RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Total RM'000
Group							
2017							
Provision for outstanding							
claims	704,706	-	462,632	201,617	33,812	6,645	704,706
Finance lease liabilities	899	3.5%	169	337	393	-	899
Insurance payables	121,894	-	87,498	19,655	14,741	-	121,894
Other payables	110,817	-	80,701	27,121	2,980	15	110,817
Total liabilities	938,316		631,000	248,730	51,926	6,660	938,316
2016							
Provision for outstanding							
claims	718,060	-	452,325	220,942	38,458	6,335	718,060
Insurance payables	79,804	-	79,804	-	-	-	79,804
Other payables	105,374	-	81,193	22,084	2,021	76	105,374
Total liabilities	903,238		613,322	243,026	40,479	6,411	903,238

* expected utilisation or settlement is within 12 months from the reporting date.

33. Financial instruments (continued)

33.5 Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year* RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Total RM'000
Company						
2017						
Other payables	1,198	1,198	-	-	-	1,198
2016						
Other payables	867	867	-	-	-	867

* expected utilisation or settlement is within 12 months from the reporting date.

33.6 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprised three types of exposures: foreign exchange rates (currency risk), market interest rates (interest rates/ profit yield risk) and market prices (price risk).

The key features of the Group's and the Company's market risk management practices and policies are as follows:

- A Group and Company-wide market-risk policy setting out the evaluation and determination of what constitutes market risk for the Group and the Company is put in place. Compliance with the policy is monitored and reported monthly to the Investment Committee.
- The Group and the Company have policies and limits to manage market risk. The market risk is managed through portfolio diversification and changes in asset allocation. The Group's and the Company's policies on asset allocation, portfolio limit structure and diversification benchmark have been set in line with the Group's and the Company's risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

33.7 Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's and the Company's primary transactions are carried out in RM and their exposure to foreign exchange risk arises principally with respect to Singapore Dollar ("SGD") and US Dollar ("USD").

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

33.7 Currency risk (continued)

The Group and the Company face foreign currency risk, primarily because of their operations in Singapore (Branch) and some of its cash and deposits are held in USD. Consequently, the Group and the Company are exposed to risks that the exchange rate of their functional currency (RM) relative to other foreign currencies may change in a manner that has an effect on the value of that portion of the Group's and the Company's assets or liabilities denominated in currencies other than RM.

Foreign exchange transaction risk impacting the Group's and the Company's profit or loss arises both from external investing activities and intra-company operating activities. Currency risk relating to investing and operating activities in the normal course of business are generally not hedged.

The Group's exposure to foreign currency (a currency which is other than the functional currency of its subsidiary entities) risk, based on carrying amounts as at the end at the reporting periods was:

	Malaysian Ringgit RM'000	US Dollar RM'000	Total RM'000
Group			
2017			
Malaysian operation			
Investment in associated company	-	26,877	26,877
Cash and cash equivalents	-	716	716
	-	27,593	27,593
Singapore operation			
Available-for-sale financial assets	27,555	-	27,555
Cash and cash equivalents	6,094	-	6,094
	33,649	-	33,649
2016			
Malaysian operation			
Investment in associated company	-	26,796	26,796
Cash and cash equivalents	-	4,419	4,419
	-	31,215	31,215
Singapore operation			
Available-for-sale financial assets	26,149	-	26,149
Cash and cash equivalents	1,724	-	1,724
	27,873	-	27,873

33. Financial instruments (continued)

33.7 Currency risk (continued)

Company	US Dollar RM'000
2017	
Investment in associated company	10,833
2016	
Investment in associated company	10,833

The Group's and Company's exposure to currency risk is immaterial in the context of the financial statements and hence, sensitivity analysis is not presented.

33.8 Interest rate/ Profit yield risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates/ profit yield.

The Group and the Company are exposed to interest rate risk primarily through their investments in fixed income securities and deposit placements. Interest rate risk is managed by the Group and the Company on an ongoing basis.

The Group and the Company have no significant concentration of interest rate/ profit yield risk.

The impact on profit before tax at +/- 25 basis points change in the interest rate, with all other variables held constant, is insignificant to the Group and the Company given that it has minimal floating rate financial instruments. Most of the Group's and the Company's fixed income securities and deposit placements are short-term in nature and are intended to be held to maturity. Hence, the sensitivity analysis is not presented.

33.9 Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/ profit yield risk or currency risk), regardless whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Group's and the Company's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The Group and the Company are exposed to price risk arising from investments held by the Group and the Company and classified in the statement of financial position as available-for-sale financial assets that comprises quoted equities and unit trusts.

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

33.9 Price risk (continued)

The analysis below is performed for reasonably possible movements in market price with all other variables held constant, showing the impact of statements of profit or loss and other comprehensive income and changes in equity (due to changes in fair value of available-for-sale financial assets).

	Change in variables	2017		2016	
		Impact on profit before tax RM'000	Impact on equity* RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
Group					
Market price	+10%	-	70,461	-	67,090
Market price	-10%	-	(70,461)	-	(67,090)
Company					
Market price	+10%	-	67,152	-	64,364
Market price	-10%	-	(67,152)	-	(64,364)

* Impact on equity reflects adjustments for tax, when applicable.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

33.10 Operational risks

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems or unexpected external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Group and the Company cannot expect to eliminate all operational risks but mitigate them by establishing a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access controls, authorisation, reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit. Business risk, such as changes in environment, technology and the industry are monitored through the Group's and the Company's strategic planning and budgeting process.

The Group's and the Company's risk taking units (Business Development/ Technical/ Support Divisions) are primarily responsible for the management of day-to-day operational risks inherent in their respective business and functional areas. They are responsible for putting in place and maintaining their respective operational manuals and ensuring that activities undertaken by them comply with the Group's and the Company's operational risk management framework and oversight by the Enterprise Risk Management Department, Risk Management and Compliance Committee and the Board.

33. Financial instruments (continued)

33.11 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 statement of financial position.

Group	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		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017										
Financial assets										
Available-for-sale financial assets										
- Unit trust	5,976	-	-	5,976	-	-	-	-	5,976	5,976
- Real estate investment trusts ("REITs")	978	-	-	978	-	-	-	-	978	978
- Exchange-traded fund ("ETF")	631	-	-	631	-	-	-	-	631	631
- Quoted shares	919,536	-	-	919,536	-	-	-	-	919,536	919,536
Held-to-maturity financial assets										
- Malaysian government guaranteed loans	-	-	-	-	-	40,344	-	40,344	40,344	40,055
- Corporate bonds and sukuk	-	-	-	-	-	181,862	-	181,862	181,862	179,288
	927,121	-	-	927,121	-	222,206	-	222,206	1,149,327	1,146,464
Financial liabilities										
Finance lease liabilities	-	-	-	-	-	-	(899)	(899)	(899)	(899)

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments (continued)

33.11 Fair value information (continued)

Group	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		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016										
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
	889,544	-	-	889,544	-	245,852	-	245,852	1,135,396	1,132,747

Company	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		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017										
Financial assets										
Available-for-sale financial assets										
- Quoted shares	883,580	-	-	883,580	-	-	-	-	883,580	883,580
Held-to-maturity financial assets										
- Corporate bonds and sukuk	-	-	-	-	-	10,390	-	10,390	10,390	10,000
	883,580	-	-	883,580	-	10,390	-	10,390	893,970	893,580

33. Financial instruments (continued)

33.11 Fair value information (continued)

Company	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		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016										
Financial assets										
Available-for-sale financial assets										
- Quoted shares	846,889	-	-	846,889	-	-	-	-	846,889	846,889
Held-to-maturity financial assets										
- Corporate bonds and sukuk	-	-	-	-	-	10,578	-	10,578	10,578	10,000
	846,889	-	-	846,889	-	10,578	-	10,578	857,467	856,889

Level 1 and Level 2 fair values

The valuation techniques and inputs used in determining the fair values of the financial assets is disclosed in note 7(c).

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2016: no transfer in either directions).

Level 3 fair value

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

Financial instruments not carried at fair value

Type	Description of valuation technique and inputs used
Finance lease liabilities	Discounted cash flow using a rate based on the current market rate of borrowing of the respective Group entities at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

34. Regulatory capital requirements

The Group's and the Company's capital management policy is to optimise the efficient and effective use of resources to maximise the return on equity and provide an appropriate level of capital to protect policyholders and meet regulatory requirements.

The subsidiary of the Company, Lonpac Insurance Bhd ("Lonpac") is required to comply with the regulatory capital requirement prescribed in the RBC Framework which is imposed by the Ministry of Finance. Under the RBC Framework guidelines issued by Bank Negara Malaysia, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. As at year end, Lonpac has a capital adequacy ratio in excess of the minimum requirement.

The capital structure of Lonpac as at 31 December 2017, as prescribed under the RBC Framework is provided below:

	2017 RM'000	2016 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	200,000	200,000
Retained earnings	590,220	475,795
	790,220	675,795
Tier 2 Capital		
Eligible reserves	44,032	44,953
Total capital available	834,252	720,748

35. Significant related party disclosures

For the purpose of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The related parties of the Group and the Company are:

i) Subsidiary company

Details of the subsidiary company are shown in note 5.

ii) Associated company

Associated company in which the Group holds an interest of between 20% to 50% in the entity is as disclosed in note 6.

iii) Key management personnel

Key management personnel includes the Company's Executive and Non-Executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group or Company either directly or indirectly. Executive and Non-Executive Directors compensation is disclosed in note 27.

35. Significant related party disclosures (continued)

iv) Companies in which a Director has substantial financial interest

These are entities in which significant voting power in such entities resides with, directly or indirectly, a Director of the Company.

- (a) The significant related party transactions of the Group and the Company, other than key management personnel compensation, are as follows:

Group		Companies in which a Director has substantial financial interest			
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
Income earned:					
Premium income		33,036	31,071		
Dividend income		26,122	29,810		
Fixed deposits income		4,989	5,976		
Corporate bonds and sukuk income		3,471	3,701		
		67,618	70,558		
Expenditure incurred:					
Rental paid		(2,926)	(2,882)		
Insurance commission		(45,815)	(42,392)		
Stock broking commission		(92)	(584)		
		(48,833)	(45,858)		
Other transaction:					
Purchase of corporate bonds and sukuk		(20,000)	(5,000)		

Company	Note	Subsidiary company		Companies in which a Director has substantial financial interest	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
Income earned:					
Dividend income	20	170,000	160,000	25,087	27,774
Fixed deposits income		-	-	1,461	1,875
Corporate bonds and sukuk income		-	-	750	752
Secretarial fees		59	-	-	-
		170,059	160,000	27,298	30,401

NOTES TO THE FINANCIAL STATEMENTS

35. Significant related party disclosures (continued)

iv) Companies in which a Director has substantial financial interest (continued)

- (a) The significant related party transactions of the Group and the Company, other than key management personnel compensation, are as follows (continued):

Company	Note	Subsidiary company		Companies in which a Director has substantial financial interest	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Expenditure incurred:					
Premium paid		(10)	-	-	-
Stock broking commission		-	-	(57)	(581)
Management fees		(411)	-	-	-
		(421)	-	(57)	(581)

- (b) The significant outstanding balances of the Group and the Company as at 31 December with its related parties are as follows:

	Companies in which a Director has substantial financial interest			
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balances with related parties:				
Placements in fixed and call deposits	125,970	206,262	-	77,660
Bank balances	9,425	13,739	97	111
Corporate bonds and sukuk	55,000	65,000	10,000	10,000
	190,395	285,001	10,097	87,771

36. Operating lease commitments

Leases as lessee

At 31 December 2017, the insurance subsidiary has commitments for future minimum lease payments under non-cancellable operating lease as follows:

	Group	
	2017 RM'000	2016 RM'000
Less than one year	2,257	2,570
Between one and five years	7,469	10,136
	9,726	12,706

Leases as lessor

The insurance subsidiary leases out its investment properties (see note 4). The future minimum lease receivables under non-cancellable leases are as follows:

	Group	
	2017 RM'000	2016 RM'000
Less than one year	807	685
Between one and five years	77	607
	884	1,292

37. Capital and other commitments

	Group	
	2017 RM'000	2016 RM'000
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	11,724	7,251

NOTES TO THE FINANCIAL STATEMENTS

38. Contingent liabilities

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

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 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 as at the date of this report, and Lonpac in consultation with its legal advisers will take such appropriate actions to defend its position that it has not been in infringement of Section 4(2)(a) of the Act.

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

39. Subsequent event

On 10 January 2018, Public Investment Bank Berhad on behalf of the Board of Directors, had announced that the Company is proposing to undertake a proposed bonus issue of up to 66,397,161 new ordinary shares in LPI Capital Bhd ("LPI Share(s)") ("Bonus Share(s)") on the basis of 1 Bonus Share for every 5 existing LPI Shares held on an entitlement date to be determined later ("Proposed Bonus Issue").

The Proposed Bonus Issue is conditional upon the following approvals being obtained:

- (i) Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for the Bonus Shares on the Main Market of Bursa Securities;
- (ii) the shareholders of LPI at an extraordinary general meeting to be convened for the Proposed Bonus Issue; and
- (iii) any other relevant authorities and/ or parties, if required.

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

In the opinion of the Directors, the financial statements set out on pages 151 to 244 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors:

Tee Choon Yeow

Director

Tan Kok Guan

Director

Kuala Lumpur

Date: 10 January 2018

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

I, **Tan Kok Guan**, the Director primarily responsible for the financial management of LPI Capital Bhd, do solemnly and sincerely declare that the financial statements set out on pages 151 to 244 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Tan Kok Guan, 560404-07-5363, in Kuala Lumpur on 10 January 2018.

Tan Kok Guan

Before me:

Commissioner for Oaths

Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LPI CAPITAL BHD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LPI Capital Bhd, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the statements of profit or loss, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 151 to 244.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LPI CAPITAL BHD

Key Audit Matters (continued)

Valuation of general insurance contract liabilities	
Refer to note 13 to the financial statements	
The key audit matter	How the matter was addressed in our audit
The insurance contract liabilities representing 86% of total liabilities is made up of claims liabilities which comprise of provision for claims reported by policyholders and incurred but not reported ("IBNR") claims and premium liabilities which is provision for unearned premium as further explained in note 2(k) and 2(l). Claims liabilities Due to the level of subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain especially in claims which require long duration until settlement particularly in Motor business, valuation of claims liabilities is a key judgmental area where our audit is concentrated on. Judgement is further required in determining the assumptions used in estimation of claims incurred but not yet reported at the end of reporting period. The estimation of claims incurred but not yet reported at the end of reporting period involves a range of standard actuarial claims projection techniques which relies on assumptions such as past claims development experience, qualitative judgement on external factors such as economic conditions, levels of claims inflation, judicial decisions and legislation and internal factors such as portfolio mix, policy features and claims handling procedures. A small change in the assumptions may have significant effect on the claims liabilities. Premium liabilities Estimation of premium liabilities involves judgement in the identification of best estimate value of Unexpired Risk Reserve at the required risk margin for adverse deviation. In determining the Unexpired Risk Reserve, the calculation used current estimates of future contractual cash flows in consideration of the current loss ratios for policies in-force as at the year-end after taking into account of investment return expected to arise on assets that support these claims liabilities.	Our audit procedures included, among others: • Evaluated and tested key controls around reserving process, including controls over the completeness and accuracy of the data that support key reserving calculations and controls over the valuation of individual claims reserves and settlement of claims. • Assessed the appropriateness of the valuation methods of outstanding claims and Unexpired Risk Reserve against the requirements of Risk-Based Capital Framework (RBC Framework as issued by Bank Negara Malaysia ("BNM")). • Assessed and challenged the appropriateness of development factors assumptions by reference to Group's and industry historical data used in calculation of IBNR, compared actual and expected experience and high level re-projection of claims liabilities for selected class of business with the support of our own actuarial specialist. • Agreed the underlying data used in the Group's estimation process to source documents. • Assessed and challenged the appropriateness of loss ratios assumptions by reference to Group's and industry historical data used in the calculation of Unexpired Risk Reserve with the support of our own actuarial specialist. • Assessed the adequacy of Group's disclosures in relation to insurance liabilities including historical claims development and sensitivity analysis of claims liabilities on movement in key assumptions of the estimation.

We have determined that there are no key audit matters in the audit of the separate financial statements of the Company to communicate in our auditors' report.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LPI CAPITAL BHD

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT

LLP0010081-LCA & AF 0758
Chartered Accountants

Ooi Eng Siong

Approval Number: 3240/02/2018(J)
Chartered Accountant

Petaling Jaya, Selangor
Date: 10 January 2018

BURSA MALAYSIA SECURITIES BERHAD

LISTING REQUIREMENTS COMPLIANCE INFORMATION

The information set out below is disclosed in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"):

(i) Utilisation of Proceeds Raised from Corporate Proposals

There was no corporate proposal to raise proceeds during the financial year ended 31 December 2017.

Disclosed in accordance with Appendix 9C, Part A, item 13 of the Listing Requirements of Bursa Securities.

(ii) Audit and Non-audit Fees

The details of the statutory audit, audit-related and non-audit fees paid/ payable in 2017 to the external auditors and its affiliates were set out below:

	Group RM'000	Company RM'000
Fees paid/ payable to Messrs KPMG PLT ("KPMG") and its affiliates		
• Audit services		
- KPMG	90	392
- Overseas affiliates of KPMG	-	376
• Non-audit services		
- KPMG *	19	149
- Local affiliates of KPMG **	7	32
- Overseas affiliates of KPMG ***	-	118
Total	116	1,067

* The non-audit services fees paid/ payable to KPMG were for the interim review of the subsidiary company for 5 months ended 31 May 2017, review of Statement on Risk Management and Internal Control, review of implementation of MFRS 9 and other services. The provision of these services by the external auditors to LPI Group were cost effective and efficient due to their knowledge and understanding of the operations of the Group, and did not compromise their independence and objectivity.

** The non-audit services fees paid/ payable to local affiliates of KPMG were for advice on taxation matters and for preparation, review and submission of tax returns.

*** The non-audit services fees paid/ payable to overseas affiliates of KPMG were for review of GST audit, review of implementation of MFRS 9, advice on taxation matters and for preparation, review and submission of tax returns.

Disclosed in accordance with Appendix 9C, Part A, item 18 of the Listing Requirements of Bursa Securities.

(iii) Material Contracts

There were no material contracts entered into by the LPI Group involving directors' and major shareholders' interests either still subsisting at the end of the financial year ended 31 December 2017 or entered into since the end of the previous financial year.

Disclosed in accordance with Appendix 9C, Part A, item 21 of the Listing Requirements of Bursa Securities.

(iv) Recurrent Related Party Transactions

LPI did not seek any mandate from its shareholders as required under Paragraph 10.09(2)(b), Part E of Chapter 10 of the Listing Requirements of Bursa Securities as the recurrent related party transactions of a revenue or trading nature entered into by LPI Group qualified as exempted transactions as defined under Paragraph 10.08(11)(e), Part E of Chapter 10 of the Listing Requirements of Bursa Securities.

Disclosed in accordance with Paragraph 10.09(2)(b), Part E of Chapter 10 of the Listing Requirements of Bursa Securities.

ANALYSIS OF SHAREHOLDINGS AS AT 17 JANUARY 2018

Issued and fully paid-up share capital	RM331,985,808
Class of shares	Ordinary shares
Voting rights	One (1) vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS BASED ON RECORD OF DEPOSITORS

Size of Shareholdings	Shareholders				No. of Shares Held			
	Malaysia		Foreign		Malaysia		Foreign	
	No.	%	No.	%	No.	%	No.	%
Less than 100 shares	672	9.19	7	0.10	7,732	**1	65	**1
100 – 1,000 shares	2,142	29.28	31	0.42	1,187,331	0.36	14,605	**1
1,001 – 10,000 shares	3,200	43.74	89	1.22	11,798,382	3.55	430,890	0.13
10,001 – 100,000 shares	951	13.00	70	0.96	27,110,705	8.17	2,105,318	0.63
100,001 to 16,599,289 (less than 5% of issued shares)	132	1.80	20	0.27	108,616,240	32.72	13,045,740	3.93
16,599,290 (5% of issued shares) and above	1	0.01	1	0.01	141,895,200	42.74	25,773,600	7.77
Total	7,098	97.02	218	2.98	290,615,590	87.54	41,370,218	12.46
Grand Total	7,316 (100%)				331,985,808 (100%)			

Note:

**1 Less than 0.01%.

TOP THIRTY SECURITIES ACCOUNT HOLDERS BASED ON RECORD OF DEPOSITORS

(Without aggregating the securities from different securities accounts belonging to the same Depositor)

	Name of Shareholders	No. of Shares Held	% of Issued Shares
1.	Consolidated Teh Holdings Sdn Berhad	141,895,200	42.74
2.	Sompo Japan Nipponkoa Insurance Inc	25,773,600	7.76
3.	Public Invest Nominees (Tempatan) Sdn Bhd Public Bank Group Officers' Retirement Benefits Fund	15,637,920	4.71
4.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	12,185,840	3.67
5.	AmanahRaya Trustees Berhad Public Savings Fund	5,135,330	1.55
6.	Tan Sri Dato' Sri Dr. Teh Hong Piow	4,684,800	1.41
7.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Consolidated Chan Realty Sdn.Bhd (E-KUG)	3,960,000	1.19
8.	AmanahRaya Trustees Berhad Public Index Fund	3,317,760	1.00
9.	Teo Ah Khiang @ Chiang Kee Foon	2,901,600	0.87
10.	HSBC Nominees (Asing) Sdn Bhd BNP Paribas Secs Svs Paris for Aberdeen Asian Smaller Companies Investment Trust Plc	2,800,000	0.84
11.	HSBC Nominees (Asing) Sdn Bhd BPSS Lux for Aberdeen Global - Asian Smaller Companies Fund	2,782,160	0.84
12.	AmanahRaya Trustees Berhad Public Growth Fund	2,779,580	0.84
13.	AmanahRaya Trustees Berhad Amanah Saham Gemilang for Amanah Saham Kesihatan	2,764,650	0.83
14.	Sompo Japan Nipponkoa Insurance Inc	2,580,000	0.78
15.	Tunku Zahrah Binti Tunku Osman	2,568,000	0.77

ANALYSIS OF SHAREHOLDINGS

Name of Shareholders		No. of Shares Held	% of Issued Shares
16.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ang Beng Poh (BMM)	2,171,040	0.65
17.	GHS Strategic Holdings Sdn Bhd	2,153,000	0.65
18.	AmanahRaya Trustees Berhad Public Equity Fund	2,085,820	0.63
19.	AmanahRaya Trustees Berhad Amanah Saham Gemilang for Amanah Saham Pendidikan	2,021,400	0.61
20.	AmanahRaya Trustees Berhad Public Dividend Select Fund	1,842,050	0.55
21.	AmSec Nominees (Tempatan) Sdn Bhd Pledged Securities Account - AmBank (M) Berhad for Ang Beng Poh	1,770,000	0.53
22.	Seah Heng Lye	1,761,000	0.53
23.	CIMB Commerce Trustee Berhad Public Focus Select Fund	1,493,280	0.45
24.	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Chin Guan	1,300,000	0.39
25.	Olive Lim Swee Lian	1,238,500	0.37
26.	AmanahRaya Trustees Berhad Public Sector Select Fund	1,161,160	0.35
27.	Teh Moh Lee	1,138,500	0.34
28.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Aberdeen)	1,058,000	0.32
29.	CIMB Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ang Beng Poh (WHH Corporation)	1,046,400	0.32
30.	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Tee Choon Yeow (PBCL-0G0390)	960,000	0.29
Total		254,966,590	76.78

SUBSTANTIAL SHAREHOLDERS BASED ON REGISTER OF SUBSTANTIAL SHAREHOLDERS

Name of Shareholders	Direct Interest		Indirect Interest		Total	
	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1. Tan Sri Dato' Sri Dr. Teh Hong Piow	4,684,800	1.41%	142,015,200 ¹	42.78%	146,700,000	44.19%
2. Consolidated Teh Holdings Sdn Berhad	141,895,200	42.74%	-	-	141,895,200	42.74%
3. Sampo Japan Nipponkoa Insurance Inc	28,353,600	8.54%	-	-	28,353,600	8.54%

DIRECTORS' DIRECT AND INDIRECT INTERESTS IN SHARES IN THE COMPANY BASED ON REGISTER OF DIRECTORS' SHAREHOLDINGS

Name of Directors	Direct Interest		Indirect Interest		Total	
	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
1. Tan Sri Dato' Sri Dr. Teh Hong Piow	4,684,800	1.41%	142,015,200 ¹	42.78%	146,700,000	44.19%
2. Mr. Tee Choon Yeow	960,000	0.29%	-	-	960,000	0.29%
3. Mr. Tan Kok Guan	-	-	525,000 ²	0.16%	525,000	0.16%
4. Mr. Lee Chin Guan	2,200,000	0.66%	-	-	2,200,000	0.66%
5. Mr. Quah Poh Keat	-	-	-	-	-	-
6. Ms. Chan Kwai Hoe	-	-	-	-	-	-

Notes:

¹ Deemed interest held by:

- (i) other corporations by virtue of Section 8(4) of the Companies Act 2016; and
- (ii) person(s) connected as defined per Section 197 of the Companies Act 2016 and by virtue of Section 59(11)(c) of the Companies Act 2016.

² Deemed interest held by person(s) connected as defined per Section 197 of the Companies Act 2016 and by virtue of Section 59(11)(c) of the Companies Act 2016.

ISSUED AND PAID-UP SHARE CAPITAL

The issued and paid-up share capital as at 17 January 2018 is RM331,985,808. The changes in the issued and paid-up share capital are as follows:

Date of Allotment	No. of Shares Allotted	Consideration	Total Issued and Paid-up Share Capital(RM)
04.10.1962	2	Subscribers' Shares	2
28.03.1963	999,998	Allotment of Shares to Essex Securities Ltd and Montreal Trust Company	1,000,000
28.06.1972	2,000,000	Bonus Issue 1:2 of 500,000 ordinary shares of RM1.00 each and Allotment of 1,500,000 ordinary shares of RM1.00 each to Kuala Lumpur Holdings Sdn. Berhad, Far Eastern Oriental Sdn. Berhad and Mr. Fred Eu Keng Fai	3,000,000
30.12.1972	3,000,000	Allotment of ordinary shares of RM1.00 each to Wei Woo Estates & Investment Limited, Hong Kong, in exchange of 6,000,000 shares of HK\$1.00 each in Wei Woo Estates & Investment Limited	6,000,000
18.01.1973	2,000,000	Rights Issue 1:3 at RM1.00	8,000,000
10.06.1980	6,000,000	Allotment of 7 1/2% Convertible Preference Shares of RM0.50 each to Selected Holdings Sdn. Berhad	11,000,000
29.10.1992	8,800,000	Capitalisation of share premium account, capital reserve account and revenue reserve account (Bonus Issue 4:5)	19,800,000
22.06.1994	9,900,000	Capitalisation of share premium account and revenue reserve account (Bonus Issue 1:2)	29,700,000
01.11.1996	11,880,000	Capitalisation of unappropriated profits (Bonus Issue 2:5)	41,580,000
10.12.1996	11,880,000	Rights Issue 2:5 at RM7.00	53,460,000
15.01.1999	53,460,000	Capitalisation of share premium reserve account (Bonus Issue 1:1)	106,920,000
12.04.2000	435,000	Exercise of share options under LPI ESOS at option price of RM2.60 per share	107,355,000
18.10.2001	43,000	Exercise of share options under LPI ESOS at option price of RM2.60 per share	107,398,000
24.07.2002	10,739,000	Subscription of new ordinary shares of LPI by NIPPONKOA INSURANCE CO., LTD. at RM3.81 per share	118,137,000

Date of Allotment	No. of Shares Allotted	Consideration	Total Issued and Paid-up Share Capital(RM)
08.01.2003	473,000	Exercise of share options under LPI ESOS at option price of RM3.29 per share	118,610,000
21.08.2003	1,117,000	Exercise of share options under LPI ESOS at option price of RM3.29 per share	119,727,000
30.09.2003	432,000	Exercise of share options under LPI ESOS at option price of RM3.29 per share	120,159,000
08.01.2004	1,237,000	Exercise of share options under LPI ESOS at option price of RM3.29 per share	121,396,000
29.03.2004	1,857,000	Exercise of share options under LPI ESOS as follows :- - 1,773,000 shares at option price of RM3.29 - 84,000 shares at option price of RM3.76	123,253,000
04.06.2004	619,000	Exercise of share options under LPI ESOS as follows :- - 592,000 shares at option price of RM3.29 - 27,000 shares at option price of RM3.76	123,872,000
27.08.2004	921,000	Exercise of share options under LPI ESOS as follows :- - 675,000 shares at option price of RM3.29 - 4,000 shares at option price of RM3.76 - 242,000 shares at option price of RM3.66	124,793,000
22.10.2004	1,545,000	Exercise of share options under LPI ESOS as follows :- - 1,050,000 shares at option price of RM3.29 - 15,000 shares at option price of RM3.76 - 480,000 shares at option price of RM3.66	126,338,000
29.11.2004	980,000	Exercise of share options under LPI ESOS as follows :- - 624,000 shares at option price of RM3.29 - 37,000 shares at option price of RM3.76 - 319,000 shares at option price of RM3.66	127,318,000
24.12.2004	1,583,000	Exercise of share options under LPI ESOS as follows :- - 567,000 shares at option price of RM3.29 - 71,000 shares at option price of RM3.76 - 756,000 shares at option price of RM3.66 - 189,000 shares at option price of RM4.30	128,901,000

ISSUED AND PAID-UP SHARE CAPITAL

Date of Allotment	No. of Shares Allotted	Consideration	Total Issued and Paid-up Share Capital(RM)
24.01.2005	1,257,000	Exercise of share options under LPI ESOS as follows :- - 391,000 shares at option price of RM3.29 - 255,000 shares at option price of RM3.76 - 526,000 shares at option price of RM3.66 - 85,000 shares at option price of RM4.30	130,158,000
08.02.2005	5,653,000	Exercise of share options under LPI ESOS as follows :- - 94,000 shares at option price of RM3.29 - 594,000 shares at option price of RM3.76 - 4,888,000 shares at option price of RM3.66 - 77,000 shares at option price of RM4.30	135,811,000
18.04.2005	435,000	Exercise of share options under LPI ESOS as follows :- - 27,000 shares at option price of RM3.29 - 161,000 shares at option price of RM3.76 - 112,000 shares at option price of RM3.66 - 27,000 shares at option price of RM4.30 - 108,000 shares at option price of RM5.94	136,246,000
11.07.2005	192,000	Exercise of share options under LPI ESOS as follows :- - 3,000 shares at option price of RM3.29 - 11,000 shares at option price of RM3.76 - 47,000 shares at option price of RM3.66 - 27,000 shares at option price of RM4.30 - 104,000 shares at option price of RM5.94	136,438,000
21.07.2005	930,000	Exercise of share options under LPI ESOS as follows :- - 1,000 shares at option price of RM3.29 - 37,000 shares at option price of RM3.76 - 87,000 shares at option price of RM3.66 - 46,000 shares at option price of RM4.30 - 759,000 shares at option price of RM5.94	137,368,000
07.10.2005	288,000	Exercise of share options under LPI ESOS as follows :- - 3,000 shares at option price of RM3.29 - 26,000 shares at option price of RM3.76 - 26,000 shares at option price of RM3.66 - 8,000 shares at option price of RM4.30 - 150,000 shares at option price of RM5.94 - 75,000 shares at option price of RM6.29	137,656,000

Date of Allotment	No. of Shares Allotted	Consideration	Total Issued and Paid-up Share Capital(RM)
20.10.2005	271,000	Exercise of share options under LPI ESOS as follows :- - 42,000 shares at option price of RM3.29 - 11,000 shares at option price of RM3.66 - 3,000 shares at option price of RM4.30 - 127,000 shares at option price of RM5.94 - 88,000 shares at option price of RM6.29	137,927,000
17.11.2005	23,000	Exercise of share options under LPI ESOS as follows :- - 1,000 shares at option price of RM3.29 - 19,000 shares at option price of RM5.94 - 3,000 shares at option price of RM6.29	137,950,000
30.11.2005	61,000	Exercise of share options under LPI ESOS as follows :- - 26,000 shares at option price of RM3.66 - 20,000 shares at option price of RM5.94 - 15,000 shares at option price of RM6.29	138,011,000
14.12.2005	165,000	Exercise of share options under LPI ESOS as follows :- - 55,000 shares at option price of RM3.76 - 31,000 shares at option price of RM3.66 - 51,000 shares at option price of RM5.94 - 25,000 shares at option price of RM6.29 - 3,000 shares at option price of RM6.95	138,176,000
27.12.2005	547,000	Exercise of share options under LPI ESOS as follows :- - 3,000 shares at option price of RM3.29 - 10,000 shares at option price of RM3.76 - 12,000 shares at option price of RM3.66 - 1,000 shares at option price of RM4.30 - 380,000 shares at option price of RM5.94 - 67,000 shares at option price of RM6.29 - 74,000 shares at option price of RM6.95	138,723,000
29.09.2010	68,834,150	Capitalisation of share premium reserve account (Bonus Issue 1:2)	207,557,150
29.09.2010	13,766,830	Rights Issue 1:10 at RM7.00	221,323,980
24.03.2015	110,661,828	Capitalisation of share premium reserve account (Bonus Issue 1:2)	331,985,808

PARTICULARS OF PROPERTY HELD BY THE GROUP

Location	Units 02-39, 02-41, 02-43 and 02-45 Goldhill Plaza Newton Road Singapore
Description	2 nd floor of 6 storey building
Current use	Rented out to third parties
Tenure	Leasehold 999 years
Remaining lease period (Expiry date)	953 years (26 February 2971)
Age of property	46 years
Built-up area	4,952 sq. ft
Net book value	RM27,270,000
Date of acquisition	26 February 1972
Date of last revaluation	18 December 2017

INTERNATIONAL NETWORK



GROUP CORPORATE DIRECTORY

HEAD OFFICE

6th Floor, Bangunan Public Bank,
6, Jalan Sultan Sulaiman,
50000 Kuala Lumpur, Malaysia.
Tel No. : (603) 2262 8688 / 2723 7888
Fax No. : (603) 2078 7455

SUBSIDIARY

LONPAC INSURANCE BHD

Head Office

LG, 6th – 7th, 21st – 26th Floor,
Bangunan Public Bank,
6, Jalan Sultan Sulaiman,
50000 Kuala Lumpur.
P.O. Box 10708
50722 Kuala Lumpur.
Tel No. : (603) 2262 8688 / 2723 7888
Fax No. : (603) 2715 1332 / 2078 7455 /
2034 2654 / 2715 0722 /
2072 3385 / 2715 0696 /
2723 7886

Website : www.lonpac.com

NORTHERN REGION

Head of Northern Region:

Mr. James Kong Wai Mun
Tel No. : (605) 254 0340
Fax No. : (605) 254 2119 / 255 2657
Email : jameskong@lonpac.com

Alor Setar Branch

No. 4 & 5, 2nd Floor,
No. 55, Bangunan Emum 55,
Jalan Gangsa,
Kawasan Perusahaan Mergong 2,
05150 Alor Setar, Kedah.

Head of Branch:

Mr. Beh Seng Tong
Tel No. : (604) 731 4413 / 731 5854
Fax No. : (604) 733 6100
Email : stbeh@lonpac.com

Penang Branch

Level 3A, Sunrise Gurney,
No. 68, Persiaran Gurney,
10250 Penang.
(Effective from 1 April 2018)

Head of Branch:

Ms. Lillian Koh Gim Ping
Tel No. : (604) 261 7998
Fax No. : (604) 262 0784
Email : lilliankoh@lonpac.com

Taiping Branch

1st Floor,
No. 9, Persiaran Taiping,
34000 Taiping, Perak.

Head of Branch:

Ms. Ang Gaik Hua
Tel No. : (605) 8091 666 / 8091 667
Fax No. : (605) 8091 668
Email : ghang@lonpac.com

Sitiawan Branch

No. 205 (1st Floor),
Jalan Leo Desa Bintang,
32000 Sitiawan, Perak.

Head of Branch:

Mr. Aw Seng Oo
Tel No. : (605) 693 9961 / 693 9962
Fax No. : (605) 693 9963
Email : soaw@lonpac.com

Ipoh Branch

Lot 12 & 14,
Jalan Yeop Abdul Rani,
30300 Ipoh, Perak.

Head of Branch:

Mr. Moh Wai Kit
Tel No. : (605) 254 0340
Fax No. : (605) 254 2119 / 255 2657
Email : wkmoh@lonpac.com

CENTRAL REGION

Kajang Branch

No. 13-1 & 13-2,
Jalan KP1/3,
Kajang Prima,
43000 Kajang,
Selangor Darul Ehsan.

Head of Branch:

Ms. Vivience Lee Sau Fong
Tel No. : (603) 8736 9130
Fax No. : (603) 8736 9135
Email : viviencelee@lonpac.com

Klang Branch

No. 2-08, 8th Floor,
Menara Empire, Jalan Empayar,
Off Persiaran Sultan Ibrahim/KU1,
41050 Klang Bandar Diraja,
Selangor Darul Ehsan.

Head of Branch:

Ms. Tan Bee Bee
Tel No. : (603) 3341 9133
Fax No. : (603) 3341 9233
Email : bktan@lonpac.com

SOUTHERN REGION

Seremban Branch

No. 496, Jalan Haruan 4/4,
Oakland Commercial Centre,
70300 Seremban,
Negeri Sembilan.

Head of Branch:

Mr. Gavin Tan Poh Teck
Tel No. : (606) 601 5677
Fax No. : (606) 601 6768
Email : pttan@lonpac.com

Melaka Branch

No. 7 & 9, Jalan Melaka Raya 11,
Taman Melaka Raya,
75000 Melaka.

Head of Branch:

Mr. Yong Chee Chean
Tel No. : (606) 282 5169
Fax No. : (606) 284 1097 / 282 9018
Email : ccyong@lonpac.com

Segamat Branch

No. 23, Jalan Genuang Perdana,
Taman Genuang Perdana,
85000 Segamat, Johor.

Head of Branch:

Mr. Sebastian Tan York Chung
Tel No. : (607) 943 6860 / 943 6880
Fax No. : (607) 943 6870
Email : sebastiantan@lonpac.com

Batu Pahat Branch

13, Jalan Flora Utama 1,
Taman Flora Utama,
83000 Batu Pahat, Johor.

Head of Branch:

Mr. Dennis Chong Shiung Tiam
Tel No. : (607) 433 8169 / 433 9169
Fax No. : (607) 433 9166
Email : dennischong@lonpac.com

Johor Bahru Branch

Suite No. 25.02-25.04, 25th Floor,
Public Bank Tower,
No. 19, Jalan Wong Ah Fook,
80000 Johor Bahru, Johor.

Head of Branch:

Mr. Ryan Leong Chee Woei
Tel No. : (607) 222 1368
Fax No. : (607) 223 0549
Email : ryanleong@lonpac.com

SARAWAK REGION**Head of Sarawak Region:**

Mr. Wong Shon Kwang
Tel No. : (6082) 428 529
Fax No. : (6082) 424 512
Email : skwong@lonpac.com

Kuching Branch

Lot 258 & 259, Section 49,
KTLD (1st Floor),
Jalan Chan Chin Ann,
93100 Kuching, Sarawak.

Head of Branch:

Mr. Wong Shon Kwang
Tel No. : (6082) 428 529
Fax No. : (6082) 424 512
Email : skwong@lonpac.com

Sibu Branch

No. 4 & 6, 1st Floor,
Lorong Pedada 20A,
96000 Sibu, Sarawak.

Head of Branch:

Mr. Joseph Pang Neng Liong
Tel No. : (6084) 313 823 / 313 023
Fax No. : (6084) 322 923
Email : nlpang@lonpac.com

Miri Branch

Lot 3528, 1st & 2nd Floor,
Al-Bayt Square,
(Miri 101 Commercial Centre),
Jalan Miri-Pujut,
98000 Miri, Sarawak.

Head of Branch:

Mr. Desmond Ng Tin Fong
Tel No. : (6085) 324 806
Fax No. : (6085) 324 769
Email : desmondng@lonpac.com

SABAH REGION**Head of Sabah Region:**

Mr. Nicholas Wong Kok Choong
Tel No. : (6088) 217 922 / 212 097 /
222 025
Fax No. : (6088) 236 917
Email : nicholaswong@lonpac.com

Kota Kinabalu Branch

Level 9, Wisma Fook Loi,
No. 38, Jalan Gaya,
88000 Kota Kinabalu, Sabah.

Head of Branch:

Ms. Veronica Chin Nyuk Lan
Tel No. : (6088) 217 922 / 212 097 /
222 025
Fax No. : (6088) 236 917
Email : veronicachin@lonpac.com

Sandakan Branch

4th Floor, Menara Rickoh,
Indah Commercial Complex,
Bandar Indah, Mile 4, North Road,
90000 Sandakan, Sabah.

Head of Branch:

Mr. Dominic Voo Chen Chung
Tel No. : (6089) 237 163
Fax No. : (6089) 237 169
Email : dominicvoo@lonpac.com

GROUP CORPORATE DIRECTORY

Tawau Branch

TB4427 & TB4428,
1st Floor, Block C,
Sabindo Square, Jalan Dunlop,
91000 Tawau, Sabah.

Head of Branch:

Mr. Peter Gau Fui Ming
Tel No. : (6089) 756 997 / 756 998
Fax No. : (6089) 756 995
Email : petergau@lonpac.com

EAST COAST REGION

Kuantan Branch

B-62B, 1st Floor, Lorong Tun Ismail 8,
Sri Dagangan II,
25000 Kuantan, Pahang.

Head of Branch:

Mr. Chen Fan Yen
Tel No. : (609) 514 4107 / 515 0317 /
516 4428
Fax No. : (609) 514 5001
Email : fychen@lonpac.com

Kuala Terengganu Branch

Lot 5032-B,
Jalan Sultan Zainal Abidin,
20000 Kuala Terengganu, Terengganu.

Head of Branch:

Encik Yaakub Bin Abu Bakar
Tel No. : (609) 622 2088 / 622 2099
Fax No. : (609) 622 2123
Email : yaakubabubakar@lonpac.com

Kota Bharu Branch

No. PT 286, Tingkat 1 & 2,
Jalan Kebun Sultan,
15300 Kota Bharu, Kelantan

Head of Branch:

Mr. Won Pier Chyuan
Tel No. : (609) 744 3166 / 744 3066
Fax No. : (609) 744 9948
Email : pcwon@lonpac.com

SINGAPORE BRANCH

300, Beach Road #17-04/07,
The Concourse,
Singapore 199555.

Chief Executive:

Mr. Yap Chee Kiat
Tel No. : (02) 6250 7388
Fax No. : (02) 6296 3767
Email : ckyap@lonpac.com

ASSOCIATED COMPANY

CAMPU LONPAC INSURANCE PLC

Head Office

7th Floor, Campu Bank Building,
No. 23, Kramuon Sar Avenue
(Street No. 114),
Sangkat Phsar Thmey II,
Khan Daun Penh,
Phnom Penh,
Cambodia.

General Manager:

Mr. Soh Jiun Hong
Tel No. : (855) 23 966 966 / 998 200 /
986 279
Fax No. : (855) 23 986 273 / 986 308
Email : soh.jiunhong@campulonpac.com.kh
Website: www.campulonpac.com.kh



I/ We _____ NRIC (New)/ Company No. : _____
(INSERT FULL NAME IN BLOCK CAPITAL)

of _____
(FULL ADDRESS)

being a member/ members of LPI CAPITAL BHD, hereby appoint* _____
(INSERT FULL NAME IN BLOCK CAPITAL)

NRIC (New) No. : _____ of _____
(FULL ADDRESS)

and/or _____ NRIC (New) No. : _____
(INSERT FULL NAME IN BLOCK CAPITAL)

of _____
(FULL ADDRESS)

or failing him, the Chairman of the Meeting as *my/ our proxy/ proxies to attend and vote for *me/ us on *my/ our behalf, at the Fifty-Seventh Annual General Meeting of the Company to be held at Sabah Room, Basement II, Shangri-La Hotel Kuala Lumpur, 11 Jalan Sultan Ismail, 50250 Kuala Lumpur on Tuesday, 27 March 2018 at 11.00 a.m., or any adjournment thereof, to vote as indicated below:

NO.	RESOLUTION	FOR	AGAINST
Ordinary Business			
1.	Re-election of Tan Sri Dato' Sri Dr. Teh Hong Piow as Director.		
2.	Re-election of Mr. Tee Choon Yeow as Director.		
3.	Approval of payment of Directors' fees.		
4.	Re-appointment of Messrs. KPMG PLT as Auditors of the Company and to authorise the Directors to fix the Auditors' remuneration.		

(Please indicate with an "X" in the space provided above on how you wish your vote to be cast. If you do not do so, the Proxy(ies) will vote or abstain from voting at his discretion.)

Dated this _____ day of _____ 2018

No. of ordinary shares held : _____

CDS Account No : _____

Proportion of : First Proxy : _____ %
shareholdings to be Second Proxy : _____ %
represented by proxies

Signature of Member/ Common Seal

Contact No. : _____

Notes :-

- Only depositors whose names appear in the Record of Depositors as at 19 March 2018 be regarded as members and entitled to attend, speak and vote at the meeting.
- A member entitled to attend and vote at the meeting is entitled to appoint not more than two (2) proxies (or in the case of a corporation, a duly authorised representative) to attend and vote in his stead. A proxy may but need not be a member of the Company.
- Where a member of the Company is an authorised nominee as defined in the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds in ordinary shares of the Company standing to the credit of the said securities account.
- Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
- Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 which is exempted from compliance with the provisions of subsection 25A(1) of the said Act.
- The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
- The instrument appointing a proxy must be deposited at the office of the Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, Tricor Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than 48 hours before the time set for the holding of the meeting or at any adjournment thereof.
- Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions set out in this Notice of Meeting will be put to vote by poll.

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STAMP

Share Registrar
Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A,
Vertical Business Suite, Avenue 3,
Bangsar South,
No. 8, Jalan Kerinchi, 59200 Kuala Lumpur,
Malaysia

Fold Here

www.lonpac.com

LPI CAPITAL BHD (4688-D)

6th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
Malaysia

T (03) 2262 8688 / 2723 7888

F (03) 2078 7455