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## A Commendable Performance In A Challenging Period

LPI Capital Bhd (LPI) ended the year 2018 with marginal improvement in its results, a commendable performance considering the challenges and volatilities of the operating environment it faced during the year.

Reviewing the performance of the Group, YBhg. Tan Sri Dato' Sri Dr Teh Hong Piow, Founder and Chairman of LPI commented, "Despite the economic slowdown, the Group continued with its business strategy to expand its market presence. For the 4th Quarter of 2018, LPI managed to further increase its revenue by 7.0% to RM389.0 million from RM363.5 million registered in the previous corresponding quarter. The increase in revenue was mainly contributed by higher premium written by its wholly-owned insurance subsidiary, Lonpac Insurance Bhd (Lonpac). Its profit before tax for the quarter under review, however, marginally grew to RM110.9 million from RM110.7 million reported in corresponding quarter of 2017. This was partly due to increase in claim costs, especially in medical and motor insurance classes. Earnings per share of LPI improved to 21.09 sen for the 4th Quarter under review from 20.83 sen while net return on equity reduced to 3.9% from 4.3% due to larger equity base.

Lonpac, with its strengthened distribution channels, continued to expand its business portfolio as it believed that with the highly competitive environment under the liberalisation framework, it needs to compensate compressed underwriting margin with a larger market share. In the 4th Quarter of 2018, Lonpac managed to increase its gross premium income by 8.0% to RM304.3 million from RM281.8 million previously. Likewise, its Net Earned Premium Income for the period under review registered a strong growth of 11.9% from RM227.1 million to RM254.1 million. The stronger growth in net earned premium was partly as a result of higher retention ratio. However, its claims incurred ratio rose to 39.1% from 34.6% previously resulting in a higher combined ratio of 64.2%, having increased from 58.9% reported in the previous corresponding quarter. Consequently, its underwriting profit for the Quarter under review registered slightly lower at RM91.1 million as compared to RM93.2 million achieved previously."

Tan Sri Teh continued, "For the 12 months period ended 31 December 2018, LPI registered an increase in its revenue by 2.9% to RM1,513.7 million from RM1,470.6 million recorded in previous corresponding period. Its profit before tax increased marginally from RM403.7 million previously to RM406.0 million while net profit attributable to shareholders stood at RM314.0 million, a 0.1% increase from previous year of RM313.8 million. Earnings per share of LPI for the year recorded 78.83 sen and net return on equity registered lower at 14.6% from 16.3% previously.

Lonpac, in 2018 financial year, improved its market position despite the highly competitive market conditions and slower demand for insurance. Its gross premium income for the year increased by 3.4% to RM1,469.4 million from RM1,421.3 million written in the previous year. It continued to strengthen its position as the market leader in the preferred fire portfolio with its written premium for fire insurance registering a growth of 11.1% over the previous year. Fire insurance remains the core portfolio of business contributing 42.4% of its total written premium. During the year, both motor and medical insurance portfolio had also reported strong growth whereas engineering insurance suffered a decline in written premium, affected by the slowdown in the number of project risks and termination of government infrastructure projects.

Lonpac's net earned premium income for the financial year under review registered a stronger 9.5% growth to RM930.8 million from RM850.2 million, arising partly from its higher retention ratio of 68.4% as compared to 61.0% reported previously. However, the claims incurred ratio for the year under review had increased to 40.9% from 38.5% mainly due to deteriorating claims trends observed in both motor and medical portfolios. Underwriting of these two classes of insurance have been constantly reviewed to ensure favourable performance. With commission for the year at a higher 6.3% and management expenses ratio maintained at 20.1%, Lonpac's combined ratio increased to 67.3% from 64.0%, resulting in a slightly lower underwriting profit of RM303.5 million, a 0.8% reduction from RM305.8 million achieved in 2017. However, Lonpac reported a pre-tax

profit of RM374.1 million in financial year 2018, a marginal improvement from RM372.2 million registered in 2017. ”

Highlights of the Group's Performance:-

| | 4th Quarter Ended | | Year Ended | |
|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Revenue (RM'000) | 389,025 | 363,493 | 1,513,663 | 1,470,631 |
| Gross Premium Income (RM'000) | 304,288 | 281,819 | 1,469,377 | 1,421,339 |
| Net Earned Premium Income (RM'000) | 254,149 | 227,077 | 930,834 | 850,154 |
| Underwriting Profit (RM'000) | 91,107 | 93,184 | 303,503 | 305,813 |
| Profit Before Tax (RM'000) | 110,875 | 110,705 | 405,965 | 403,749 |
| Net Profit Attributable to Shareholders (RM'000) | 84,003 | 82,997 | 314,049 | 313,794 |
| Net Return on Equity (%) | 3.9 | 4.3 | 14.6 | 16.3 |
| Earnings Per Share (sen) | 21.09 | 20.83 | 78.83 | 78.77* |
| Claims Incurred Ratio (%) | 39.1 | 34.6 | 40.9 | 38.5 |
| Management Expense Ratio (%) | 17.5 | 17.3 | 20.1 | 20.3 |
| Commission Ratio (%) | 7.6 | 7.0 | 6.3 | 5.2 |
| Combined Ratio (%) | 64.2 | 58.9 | 67.3 | 64.0 |

*Comparative figures for the weighted average number of ordinary shares for basic earnings per share have been restated to reflect the adjustment arising from Bonus Issue during the current financial year ended 31 December 2018.

Tan Sri Teh announced, “In view of the satisfactory performance of the Group in 2018, the Board has declared a second interim dividend of 42.0 sen per share. This 2nd interim dividend payment which amounted to RM167.32 million is part of the Group’s effort to reward its shareholders for their support in LPI. Together with the first interim dividend of 26.0 sen per share amounting to RM103.58 million which was paid in August 2018, the proposed total dividend pay-out for the financial year 2018 is RM270.90 million representing 86.3% of the Group’s net profit attributable to shareholders and a 13.3% increase from the total pay-out of RM239.03 million in the 2017 financial year.”

Tan Sri Teh further observed, “The intensifying implementation of BNM’s Liberalisation Framework presents new challenges to all players in the industry especially the Fire and Motor classes of business. Insurance players looking to increase their market share rolled out competitively priced products which exerted greater pressure on margins and eroded profitability. The market environment was further affected by the turbulent global financial market and trade disputes which have dampened economic sentiments. Lonpac’s strategy of focussing on product development, enhancing distribution channels and collaborating with key partners will help to continue growing our market share in the light of the challenging economic environment and further liberalisation.

The Group will continue to systematically execute our business plans which prioritise prudential risk management, organic growth and customer-centric focus with the aim to maximise shareholders' value creation."

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For more information, please contact:

**Mr Tan Kok Guan**

Chief Executive Officer – LPI Capital Bhd

Tel : 03-2034 2670

Email : kgtan@lonpac.com

**Mr Looi Kong Meng**

Chief Executive Officer – Lonpac Insurance Bhd

Tel : 03-2262 8620

Email : kmlooi@lonpac.com

**Mr Harry Lee Chee Hoong**

Head of Group Finance & Corporate Services

Tel : 03-2723 7750

Email : harrylee@lonpac.com