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Tan Sri Dato' Sri Dr. Teh Hong Piow

OVERVIEW

OVERALL BUSINESS ENVIRONMENT

During the year under review, the Group's revenue grew by RM99.6 million to RM738.3 million on the back of an increased gross premium income of 17.5% from RM574.4 million to RM675.2 million achieved by its wholly-owned subsidiary Lonpac Insurance Bhd ("Lonpac"). For the past 5 years (2005 to 2009) Lonpac recorded commendable annual average growth rate for gross premium and net premium income at 12% and 18% respectively. Net retention ratio increased to 65% for 2009 as compared to the average of 63% for the earlier 5 years. During the period from 2005 to 2008, its market share grew from 3.5% to 4.5%.

Lonpac's philosophy of stringent underwriting policy and uncompromising prudential standard in risk management

continued to produce underwriting profits for all classes of business. Fire, being the largest portfolio of business at 53.6% of the total portfolio achieved the highest underwriting surplus before management expenses of RM93 million.

Underwriting Surplus before Management Expenses By Class

RM'000	Underwriting Surplus before management expenses	
	2009	2008
Fire	93,030	68,603
Motor	19,312	30,366
Marine, Aviation & Transit	6,100	5,290
Miscellaneous	54,997	38,083
Total	173,439	142,342

SUMMARY OF GROUP FINANCIAL PERFORMANCE

At A Glance

	2009 RM'000	2008 RM'000
Profit Before Taxation	161,335	141,564
Profit After Taxation	126,088	104,247
Total Assets	1,488,697	856,201
Shareholders' Equity	900,673	363,741
Basic Earnings Per Share (sen)	91.6	75.7
Return on Equity ("ROE")	14.0%	14.0%*
Operating Margin	21.7%	22.1%
Net Claims Incurred	46.7%	51.2%

*Restated ROE after taking into account of FRS 139 adoption.

Profits and Dividends

- Profit before taxation of LPI Group increased by 14% from RM141.6 million in 2008 to RM161.3 million, contributed by strong growth in revenue of 15.6%. The Group's net profit after taxation also rose by 21% from RM104.2 million in 2008 to RM126.1 million. The sterling profit performance was driven by a higher underwriting surplus.
- The Group's basic earnings per share increased from 75.7 sen in 2008 to 91.6 sen for the year under review.
- The Board of Directors recommends a final single tier dividend of 41.25 sen per share. Together with the interim dividend of 26.25 sen net per share comprising franked dividend of 7 sen less 25% tax (5.25 sen net per share) and 21 sen single tier dividend, the total net dividend for 2009 would amount to 67.5 sen per share as compared to net dividend of 63.45 sen paid last year.

Profit Before Taxation By Segment

	2009 RM'000	2008 RM'000
General Insurance Operations	126,311	108,679
Investment Holding	34,097	32,322
Financing of Leases	(1)	(34)
	160,407	140,967
Share of profit after tax of equity accounted associated company	928	597
Profit Before Taxation	161,335	141,564

- General Insurance Operations remained to be the Group's core business, accounting for 78.3% of the Group's profit before taxation in 2009.
- The domestic operations contributed 97% of the Group's profit before taxation while its regional business in Cambodia has yielded satisfactory results and registered a 55.4% increase in share of profit after tax to RM928,000.

Balance Sheet Growth and Capital Position

- Total assets of LPI Group increased by RM632.5 million during the year to stand at RM1.49 billion as at the end of 2009.
- The Group's total investments registered a growth rate of 85% to RM1.34 billion as at the end of 2009.
- The increase in value for both the total assets and investments was attributed to the adoption of FRS 139: Financial Instruments - Recognition and Measurement.

CAPITAL MANAGEMENT

Efficient Capital Structure and Enhancing Shareholders' Value

LPI Group is fully committed in its effort to enhance shareholders' value and has actively managed its capital with the aim of improving the efficiency of its capital structure. The following strategies were implemented as part of the Group's ongoing initiatives to maintain a strong and robust capital position in supporting the Group's business growth:

Buy-back of shares:

During the financial year ended 31 December 2009, LPI Group bought back 1,500 of its own shares. A total of 1,054,700 of shares were bought back since 2005. The total shares bought back represented 0.76% of the issued and paid-up share capital of LPI. All these shares bought back were held as treasury shares.

Healthy dividend payout:

LPI Group maintained a healthy dividend payout policy in 2009 with the payment of an interim dividend of 26.25 sen net per share comprising franked dividend of 7 sen less 25% tax (5.25 sen net per share) and 21 sen single tier dividend and the proposed final single tier dividend of 41.25 sen net per share subject to the approval of shareholders. The total net dividends paid and payable for 2009 would amount to RM92.9 million which represents 73.7% of the Group's net profit attributable to the shareholders of the Company for 2009.

The Group's key initiatives to enhance the efficiency of capital management and improve business profitability had improved in the Group's net return on equity from 13.2% in 2000 to 14% in 2009 notwithstanding the early adoption of FRS 139.

On the other hand, the Group's earnings per ordinary share improved to 91.6 sen as compared to 23 sen in 2000. The enhancement in shareholders' value is reflected in the significant appreciation of LPI's share price in addition to the high dividend yield. Since the beginning of 2000, LPI's share price had appreciated by 439.4% to RM13.70 per LPI share and its market capitalisation has expanded from RM272.7 million to RM1.9 billion as at the end of 2009.

As at the end of 2009, the Capital Adequacy Ratio ("CAR") of Lonpac was higher as compared to the Bank Negara Malaysia's supervisory CAR of 130% and its internal CAR.

FINANCIAL STRENGTH RATING

On 16 September 2009, A.M. Best re-affirmed Lonpac's Best's Financial Strength Rating of A- (Excellent) and an issuer credit rating (ICR) of "a-". The outlook for both ratings is stable. The ratings reflect Lonpac's adequate capitalisation and its ability to manage profitable growth. The ratings also recognise the Company's wide distribution platform and sound spread of business composition.

EARLY ADOPTION OF FRS 139: FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

The Malaysian Accounting Standards Board ("MASB") had announced its plan in August 2008 to bring Malaysia to full convergence with International Financial Reporting Standards by 1 January 2012. The move will help place Malaysia's capital market and companies on the same level playing field with international markets. As part of a phased convergence, the MASB announced that the effective date for applying Financial Reporting Standard 139: Financial Instruments – Recognition and Measurement ("FRS 139") will be 1 January 2010.

The Group has early adopted FRS 139 for the annual period beginning on 1 January 2009. The early adoption of FRS 139 has resulted in a change in the accounting policy relating to the classification and measurement of financial assets. The accounting policies relating to these financial assets changed from 1 January 2009 are disclosed in Notes 2(f) and 2(g) to the financial statements on pages 185 to 189. The FRS 139 is applied prospectively and its effect to the opening retained earnings and other reserves of the Group as at 1 January 2009 is as follow:

Statement of Changes in Equity

	As at 31.12.2008 RM'000	Effect of adoption of FRS 139 RM'000	As at 01.01.2009 RM'000
Fair value reserve	-	377,043	377,043
Retained profits	118,822	(440)	118,382

BUSINESS OPERATIONS REVIEW

UNDERWRITING

In 2009, Lonpac's underwriting team continue to underwrite risks selectively. Risks that are deemed hazardous in nature such as wood base and garment industry were thoroughly assessed before accepting the risks.

In assisting the underwriters to further manage the risk underwritten by the Company, Lonpac's risk management surveyors play an important role in conducting surveys and loss control services to assist the underwriters to have in depth understanding of the risks and at the same time provide our clientele loss prevention recommendations. We have beefed up our team risks surveyors with a majority of them having an engineering background to cater for the increase in the volume of industrial and commercial risks insured by the Company.

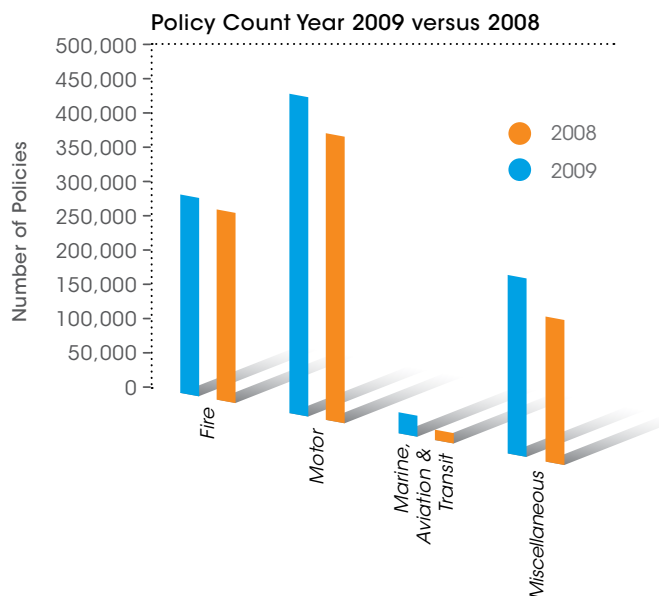
The use of business tools such as the Lonpac's Business Intelligence system and the Insurance Services Malaysia ("ISM") market intelligence system have further assisted the underwriters to understand the trend and market experience in enabling Lonpac to underwrite a 'preferred' risk at a 'right' price.

The prudential standard of risk acceptance produced positive results. Lonpac achieved higher underwriting surplus of RM97.6 million for the financial year ended 31 December 2009, an increase of RM22.6 million or 30% from RM75 million recorded last year.

RM'000	Fire	Motor	Marine, Aviation & Transit	Miscellaneous	Total
Gross premium	229,381	194,406	23,446	228,013	675,246
%	34.0	28.8	3.5	33.7	100.0
Underwriting surplus before management expenses	93,030	19,312	6,100	54,997	173,439
Underwriting surplus after management expenses	69,319	(9,724)	4,085	33,964	97,644

The Company continued to register positive growth and the total number of policies issued for 2009 increased to 1,038,194 from 914,351 in 2008, registering an increase of 13.5%. The underwriting staff's productivity have also improved with an average of 12,661 policies issued per staff as compared to 11,875 recorded in 2008.

Class	Total no. of policies		No. of policies per underwriting staff	
	2009	2008	2009	2008
Fire	284,170	274,520	18,945	17,158
Motor	463,615	416,608	42,147	37,873
Marine, Aviation & Transit	26,791	26,114	3,349	3,264
Miscellaneous	263,618	197,109	5,492	4,693
Total	1,038,194	914,351	12,661	11,875



Process efficiency continues to be the focus to ensure Lonpac's customers received the highest delivery standard. This year, we have developed and launched E-Insurance immediate policy generation and printing process where Lonpac's E-Insurance users are able to print policies at source immediately upon submitting their proposals via the web based E-Insurance system. The system not only reduces policy delivery time to the intermediaries and insureds but would also allow the option to select the relevant documents that they wish to print, thus reducing the unnecessary print wastages and at the same time be more environmental friendly.

In April 2009, we launch an enhanced E-Marine system which allows and caters for our intermediaries' corporate clients to transact their marine insurance business directly with us. The corporate direct access reduces the work flow and waiting period. This improvement resulted in a more efficient process for the corporate clients to have their marine insurance transactions processed in an instance. Apart from the corporate client access, enhanced E-Marine system had also included a new copy function, where frequent users can use the earlier submitted electronic proposals as a template for future submission making future submission easier without the need to repeat the users data entry process.

To increase Lonpac market share for Personal Accident insurance business, a new Personal Accident product, FlexiCare PA was launched in May 2009. Growing market demands for comprehensive coverage that extend to cover children at affordable price were the theme for Lonpac's FlexiCare PA plan. The main features of the product include coverage to insured's children at no additional cost if both parents are insured under one policy and it provides double indemnity compensation benefits if accidental death or permanent disablement occurred outside the country.

Lonpac will continue to research and develop products to cater to the current requirements of the insuring public, both the retail consumers as well as the corporate clientele.

BUSINESS DEVELOPMENT

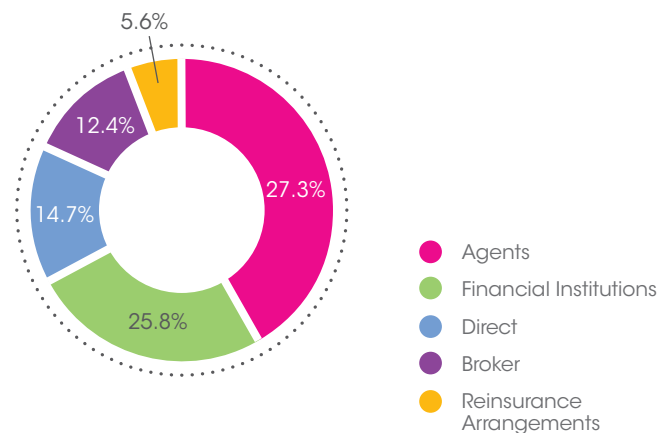
The financial crisis which was triggered by the subprime mortgage backed securities in the United States of America had far reaching impact on the global financial system and Malaysia's economy is not spared from the ill effects of this unprecedented economic challenges. Despite operating in a highly competitive market its wholly-owned subsidiary Lonpac Insurance Bhd managed to achieve a higher gross premium income of RM675.2 million, an increase of 17.5% as compared to the preceeding year. Net premium income also rose from RM376.3 million to RM437.9 million or 16.4%.

In line with Lonpac's continuous effort to provide effective and efficient services to the policyholders, brokers and intermediaries, two branch offices namely, Klang and Sibul were added to the operation. This expansion increased our network to 21 offices consisting of 3 Regional Offices and 16 branches in Malaysia, a branch in Singapore and an associated insurance company in Cambodia.

In addition to the above, the Group continues to optimise its delivery channels and introduced more value added convenience to its policyholders through:

- Agency;
- Financial Institution;
- Broking;
- Direct via Customer Service Department; and
- Reinsurance Arrangements.

Gross Premium By



Agency

The agency force continues to be the main distribution channel with a gross premium production of RM280 million achieved during the year under review. This represents a growth of 18.1% (RM237 million) in total gross written premium when compared against the last financial year. Total number of agents as at 31 December 2009 was 1,388.

The Masterclub, an elite grouping of agents where Lonpac recognises and honours our crème de la crème of agents, was launched in 2006 with a membership of only 16. This recognition is effective and has shown great promise as it doubled to 32 members in 2009. We shall continue to review the benefits and recognition accorded to this elite group of agents to further enhance its membership and productivity with a view to generate profitable premium income.

In this context, we have introduced three classes of Masterclub membership with effect from 1 January 2010 to motivate agents to further increase their contributions and create a differentiation in the quality of our agents. These 3 different Masterclub Membership are Titanium Masterclub, Platinum Masterclub and Gold Masterclub. This loyalty and motivational programme provides the impetus for agents to further improve their performance as benefits and rewards are directly linked to accomplishment. The Titanium Masterclub is the most prestigious elite club and is only eligible for agents who are able to achieve and maintain a minimum level of profitable premium income.

The endeavour to increase agency force is not limited to numbers but also its profitability. Lonpac has embarked on developing non-motor based agents and a well balanced portfolio business to enhance underwriting profit for the Company. We are promoting and encouraging "single-principal" agents, to create loyalty and cementing the partnership for a lasting mutual benefits.

Lonpac acknowledges the undeniable importance of agents as our business partners and persistently strives to arm our agents with relevant technical knowledge and soft skills to further raise their level of excellence. To meet

the demand of the softening market, coupled with keen competition from other insurance companies, we provide our agents continuous trainings, seminars and workshops to face the challenges of the competitive and changing insurance environment.

A series of comprehensive training programme for 2009 were conducted to enhance the technical capabilities of the agency force. These are:

- Seminars on Technical Subjects
- Trainings on Preparing Insurance Quotations
- Workshops on E-Insurance
- Marketing Skills
- Introducing New Lonpac's Products

Information Technology continues to play an important role in supporting an efficient delivery system. To this end, several trainings on E-Insurance functions were conducted for the agents. These include:

- E-Immediate Policy Printing
- E-Foreign Workers Compensation Scheme
- E-Foreign Workers Insurance Guarantee
- E-Portal
- Customer Relationship Management

The Annual Agency Convention which saw 128 agents attending was held from 24 to 26 April 2009 in Penang. The tagline "Forging Partnership" was specifically chosen as Lonpac believes that agents are its long-term business partners. The Company's performance, mission and vision were shared with the participants and staff to synchronise the objective on working hand-in-hand. Agents from different market place were able to exchange views and ideas on customers' needs and apply suitable strategies to increase productivity.

Moving forward into 2010, Lonpac will aggressively address strategies in anticipation of stiff competition in the fast changing insurance environment. The relentless pursuit for expansion in agency force will continue in addition to grooming current and future agents to be insurance professionals.

Financial Institution

The Financial Institution ("FI") Department's premium production which is mainly derived from the Public Bank Berhad ("PBB") Group contributed a total gross premium of RM174 million in 2009 registering a premium growth of 12.6% compared with the preceding year of RM154.5 million.

During the year, we initiated several business development strategies with PBB to maintain and enhance its insurance services to PBB's clientele. Amongst them was the proposed attachment of Lonpac Insurance's personnel at PBB Branches to provide sales and technical support service to PBB and our mutual customers. Our insurance personnel will provide advice to targeted SMEs/ SMIs clientele of PBB on the protection provided by a comprehensive and a professionally arranged insurance package. This provides an opportunity to Lonpac to increase premium production from both the existing mortgaged properties and related clienteles. This initiative is expected to contribute positively in the coming years.

Lonpac is also working closely with PBB's Trade Finance, Corporate Banking & Hire Purchase Divisions to tap into various classes of insurance businesses, such as Marine Cargo for cargo shipments, Fire on commercial and industrial properties and Private Motor on hire purchases with PBB.

The reinsurance business from PBB's partnership with Takaful Operators for the provision of syariah compliant policies for the clientele of Public Islamic Bank Bhd, a wholly-owned subsidiary of PBB, has also contributed to the premium growth of Lonpac.

Lonpac is committed to continuously provide excellent services to PBB's customers by conducting an exercise to review the sum insured on all mortgaged residential and shop-house properties above 10 years to ensure adequacy of sum insured and also review the insurable perils for all commercial properties. These review exercises are expected to provide PBB's customers with relevant and adequate insurance coverage providing them with peace of mind and at the same time contribute positively to FI's fire portfolio in 2010.

Lonpac will continue to improve and enhance its delivery systems to meet the ever changing needs of its customers. More structured training programmes will be conducted in 2010 to equip PBB's extensive base of Marketing & Sales

team with technical knowledge to further compliment our service commitments to our mutual customers.

Broking

The broking market in 2009 continued to remain soft and competitive despite the implementation of the Risk-Based Capital ("RBC") regime by Bank Negara Malaysia ("BNM") on 1 January 2009 to improve financial prudence and resilience in the general insurance industry. However, continued aggressive competitions from brokers, insurers and re-insurers for premium growth in a global recessionary period have added downward pressure on the general premium rates and terms in 2009. Hence, renewal premiums for most sectors of insurance businesses in 2009 continued to erode, especially for larger premium businesses under the industrial Large & Specialised Risks ("LSR"), Independent Power Plants ("IPP"), large Marine Open Cover ("MOC") for cargoes, specialised liabilities like Directors & Officers ("D&O") Liability and Professional Indemnity ("PI") policies. Premiums for new large infrastructure, commercial offices and residential projects businesses are extremely competitive under the current soft market environment. Government stimulus packages designed to expand and protect the economy from the global financial crisis via large scale infrastructure related developments have yet to be materially reflected in premium growth in 2009.

Despite the difficult environment the Broking Department recorded a total gross premium growth of 29.8% in 2009 amounting to RM83.8 million compared with 2008 of RM64.6 million. Broking constitute 12.4% of the total business portfolio.

Most major renewal businesses were successfully secured though some with reduced premiums. New businesses were also successfully secured, both directly and on co-insurance sharing basis, from our broking partners in sectors such as industrial LSR risks; fire risks on hotels, resorts, residential and other commercial properties, engineering project risks, specialised D&O and PI risks, Foreign Workers Compensation Scheme and other general accident risks.

Our sterling financial position supported by international A.M. Best Co. rating of A- (Excellent) coupled with the Euromoney award as the Best Insurer 2009 in Malaysia are promoting us positively as the preferred Insurer in the general insurance market both locally and also internationally.

CHAIRMAN'S REVIEW (cont'd)

Our strategic affiliation with Chubb Multinational Risk Group and their Outstanding Affiliate Service Awards 2007 & 2008 are testimonies of our outstanding service standards and practices. All these international awards and affiliation have assisted us to secure large local and multi-national risks.

The broking insurance market in 2010 is expected to be more competitive and risks premiums are expected to erode further. Hence, broking business in 2010 would be very challenging and require great prudence in selection and underwriting risks from the broking market. We shall continue building on our competitive advantages in providing effective risks solutions in targeted risks sectors of insurance businesses with more selected broking partners that have good track records and share our business philosophy and practices.

CLAIMS

We are honoured to be awarded the "Best Insurer in Malaysia" by Euromoney that included the award of being "Best Insurer for Claims Resolution, Malaysia" in 2009. Such achievements were made possible through our continued commitment and drive to deliver excellent claim services to ensure legitimate claims are paid promptly and equitably.

We are committed to maintain a high level of customer satisfaction, minimising loss exposure and delivering strong operating results.

Apart from the above, we constantly ensure that claims are managed efficiently from the moment of its initial notification to the final settlement or resolution. Lonpac ensures that the process is kept as simple as possible to facilitate the smooth and efficient settlement of claims. Where necessary, cost curbing measures are implemented without compromising quality.

As the efficiency of the claims process have a direct impact on loss adjustment exposure, combined ratios and overall underwriting profitability; it is a challenge to ensure that the claims process is not undermined by cumbersome systems, labour intensive workflows and inability to respond to changes.

We always provide quick yet effective solutions to reduce the claims management cycle from the date of claims registration to settlement. The benefits would minimise expenses and claims leakages resulting in higher staff productivity and cost saving.

To achieve this, we have a team of dedicated and experienced personnel who are specialised in the various classes of insurance to provide effective advice to our policyholders/ claimants. This includes prompt attendance to customer complaints and acknowledging their feedback to help us to continuously improve our service further.

In addition, an equally important responsibility is to protect our stakeholders' interests that require us to carry out detailed investigations into any suspicious claims to weed out fraud. Adjusters or experts in the relevant fields are engaged to carry out such investigations when necessary.

Whenever possible, we would also provide risk improvement measures to policyholders to assist them to reduce the possibility of claims. This will benefit the client as business interruptions to our clients are kept to a minimal level.

Claim processes and workflow are subjected to periodic planned audits to ensure compliance with regulations set by both the regulatory authorities as well as our own benchmark requirements.



The statistics of claims registered and settled in 2008 and 2009 are as follows:

Classes	No. of claims registered		No. of claims settled	
	2009	2008	2009	2008
Fire	2,202	2,119	1,188	915
Marine	849	719	427	340
Personal Accident	5,667	6,730	5,106	6,127
Miscellaneous	2,404	1,768	1,448	808
Health	3,319	2,701	2,589	1,841
Workmen Compensation	2,412	2,928	997	1,183
Motor	17,716	18,547	8,892	7,264
Liability	1,380	1,029	467	219
Bond	333	123	213	23
Aviation	1	0	1	0
Engineering	840	717	321	161
Total	37,123	37,381	21,649	18,881

One of our main objectives is to continuously improve our claims settlement ratio and we are constantly reviewing our claims settlement practices to achieve this. The productivity of the Claims Department is also measured by the number of claims settled per claims staff during the year. In 2009, the average number of claims settled by each claims staff was 1,036 as compared to 1,008 in 2008, indicating an improvement in our service.

CUSTOMER SERVICE

At Lonpac, great emphasis is placed on customers' confidence and satisfaction. Towards this end, we continuously undertake initiatives to enhance customer service standards. Lonpac always maintain its excellence in customer service as a foundation of its growth strategy. The Group relentlessly endeavour to provide innovative products and services, economical pricing coupled with its commitment to continuously raise the bar of customer service standards to ensure that the Group could position itself ahead of the competitors in the competitive insurance market.

A Customer Service Centre was officially opened in 2004 as a one-stop centre which handles the insurance needs of our customers. A Complaints Unit had also been established to serve as a platform to measure customer's satisfaction and provide fast response to the complaint.

Our E-Insurance system has enabled us and our agents to issue E-Cover Notes for the customers remotely. We have also implemented an enterprise output solution to enable digital assembly of our insurance policies and distribution via multiple distribution channels efficiently. These measures have helped us reduce the time in processing policies issuance and speed up delivery process.

Lonpac E-Assist and Home-Assist are 24-hour value added services that provide services pertaining to car breakdown and referral services on home inconveniences respectively.

In 2009, a Customer Relationship Management ("CRM") system was launched to enhance customer service and build customer relationship for significant customer loyalty and retention. The system enables an integrated and consistent view of customer details where customer issues, requests or complaints can be managed easily.

To nurture the culture of excellence in customer service throughout the LPI Group, trainings for employees are provided on technical skills and professional development. This is to ensure that staff are well equipped with technical competencies to provide customer with professional services of excellent quality.

INFORMATION AND COMMUNICATION TECHNOLOGY

With rising expectations to be more responsive and nimble to the needs of our customers, Information and Communication Technology ("ICT") is increasingly seen as a crucial enabler in achieving our corporate mission. Despite the economic slowdown, we continued to focus our efforts to strengthen our ICT platform through the process of enhancing and deploying new systems and technologies in pursuit of service excellence and operational efficiency.

The ICT strategies are monitored by a steering committee that examines all major projects and proposals to ensure that the business objectives are aligned and met. A committee represented by a hybrid team of senior management, audit and IT personnel is formed to review and propose recommendations in streamlining the workflow and processes of IT systems including internet web-based systems to improve efficiency and ultimately reduce costs. The internet web-based systems provide an alternative delivery channel to our agents, policyholders and prospective customers for online insurance services within a secured and user-friendly environment.

Web-based systems such as the E-Insurance system are constantly being reviewed and upgraded. Some of the initiatives undertaken are the implementation of the Foreign Worker Insurance Guarantee ("E-FWIG") system and the Foreign Worker Compensation Scheme ("E-FWCS") system. Intermediaries are able to print the insurance guarantee and submit proposals on foreign worker compensation scheme at their convenience via our E-Insurance system. With the enhancement on the E-Marine system, intermediaries' clients can now access our E-Insurance system to issue marine certificate immediately and this is in line with our agents' services improvement initiatives.

Through the immediate generation of policies system, intermediaries are now able to enjoy the benefits in printing policy schedules and other relevant documents online via our E-Insurance upon submission of the proposals.

In November 2009, we launched the fees protection scheme system for our Singapore branch. With this system, Singapore's private education institutions are able to buy insurance to secure their students' course fees at Lonpac Singapore's E-Insurance website.

The Customer Relationship Management ("CRM") system mooted in year 2008 to improve customer services and to build customer relationships for significant customer loyalty and retention was launched this year for Motor, Fire and Personal Accident classes of business. With this system, an integrated and consistent view of customer details is made available to all departments. Customer issues, requests or complaints can be managed easily where information can be entered, stored and accessed by employees in different departments. The customer database serves as a campaign activity database in which the customer contact information can be utilised for designing and executing targeted marketing campaigns.

As part of our IT strategic plan, we are embarking on building a company's portal website ("E-Portal") which offers a policyholders portal and a new look of the current corporate website. The E-Portal will also include workflow management, collaboration between work groups, and policy-managed content publication. Apart from providing online insurance services, the web portal will offer other services such as personalised websites for intermediaries, events calendaring, email, news and stock prices.

With the help of the Business Intelligence ("BI") system that was first implemented in 2007, users are empowered to track, understand and manage vital business information in our operational systems, therefore providing us with a better understanding of our customers and business. Plans have been put in place to review the current requirements and upgrade the current BI tools for better performance, greater flexibility and functionality.

The branches Wide Area Network ("WAN") is restructured by implementing dual link infrastructure to provide higher performance and scalability to support our mission critical applications which are currently running on multiple application platforms. The upgrade of Lonpac's branches network bandwidth improves the network performance of branches network connections to Head

Office in delivering the best value and reducing network congestion from occurring in the existing primary link. Users are able to enjoy optimal network bandwidth performance with better application segregation and higher speed. This dual link network infrastructure has provided better fault tolerance to the branches.

In an age of mobile technology, blackberry enterprise solution was introduced to allow the senior management team to access the corporate emails wirelessly through the use of handheld devices. This enabled the decision makers to remain responsive while on the move.

With the rapid growth of data in the Document Management System ("DMS"), a cost effective archiving system is implemented to archive the historical data from the primary data storage and move to a less expensive secondary storage. The archiving solution has the flexibility to archive data based on any specific period as required to optimise the data performance and storage size.

Continued efforts have been put in place to enhance the security and reliability of data and systems. The systems and policies are regularly being reviewed for any securities vulnerabilities and new updates. Firewalls are replaced with latest technologies integrated with intrusion prevention features to provide application and infrastructure protection at gigabit speeds to mitigate any intrusion or security breaches that may have significant impact to the business.

Our traditional web content filtering system is replaced by a more advanced web content filtering appliance to provide maximum security for our growing complex network. The new web content filtering solution implemented provides the capabilities to have full control over the internet usage, while at the same time providing web security to prevent threats for causing damage within the network. This form of control and security can effectively assure that the internet access provided to users is not misused and any access to the internet is secured.

Besides, the web content filtering appliance delivered better internet surfing speed with the help of its caching technology and high-speed antivirus/ malware scanning by reducing websites response time thus optimising the bandwidth.

The protection of data assets is critical in Lonpac as valuable data travels freely across various environments such as the removable storage devices and the USB memory sticks. In this aspect, Lonpac has implemented a scalable, enterprise-wide security solution that prevents unauthorised access to these endpoints by using strong access control and powerful encryption. The endpoint encryption solution has flexible centralised policy to provide comprehensive data protection, whilst encryption and authentication are transparent to the end user and performed with minimal performance impact, leading to no degradation in system performance.

One of the Green IT initiatives in our pipeline to implement is virtualisation across and within the data centres. The virtualisation initiatives will begin with server consolidation and extending to storage virtualisation resulting in less demand for power and space, thus removing redundancies and maximising values.

In fulfillment of our corporate social responsibility and mission, we will continue to endeavour on building a firm ICT foundation for high quality services and support within an Eco IT environment.



OUTLOOK FOR 2010

OUTLOOK FOR THE INSURANCE INDUSTRY

The performance of the insurance industry is expected to remain healthy despite the uncertainties in the financial market. The factors supporting a positive outlook for future growth in the insurance industry are in place. The stimulus package valued at RM60 billion announced by the Government on 10 March 2009 is expected to generate demand and strengthen growth prospect for the domestic economy. The supportive conditions prevailing in the international reinsurance market also augurs well for the industry. Healthy operating results underpinned by improved underwriting surplus reaped from greater economies of scale and efficient utilisation of capital provides a positive outlook for 2010.

The implementation of the Risk Based Capital ("RBC") on 1 January 2009 continues to sharpen the focus on the need to align capital requirement with risks profile. The Capital Adequacy level serves as an indicator of the insurers' financial resilience. This new method of measuring solvency margin has presented expanded opportunities to the insurers that are adequately capitalised. An effective risk management and good capital management plan will provide the much needed competitiveness to face the challenges ahead.

EXPECTATIONS AND OPPORTUNITIES

The insurance industry is expected to remain highly competitive. With supportive conditions prevailing in the international reinsurance market, the market rates will continue to slide downward. Insurers are expected to intensify their efforts to increase market share. Such aggressive promotion in business would result in further erosion of rates. However, the implementation of RBC effective from 1 January 2009 would result in improved risk management practices by insurers in Malaysia.

With good corporate governance and strong balance sheet, Lonpac that mainly underwrites tariff class of business would take advantage of the new requirements to further increase its gross premium income. Prudential underwriting standards would continue to be applied to ensure profitability.

The Group with its proven track record of profitability and strong assets will remain resilience in this challenging environment. The Group has weathered the recent events well and is in a strong position going into 2010.

STRATEGIES AND DIRECTIONS

The success enjoyed by the Group for the past years was mainly attributed to its high prudential standard in risk evaluation. In its pursuit of business growth, the Group will continue to remain prudent, maintain strong asset quality, uphold strong corporate governance and implement sound risk management policies to ensure sustainable long-term growth. The Group will continue to pursue its organic growth strategies to increase market share for its core business of fire insurance.

Agency has been a growing source of premium income and the prospect in expanding the premium income from this distribution channel appears promising. Developing long-term partnership with our agents would be the main focus. Agents would be the vehicle to further penetrate into the market to increase our share of gross premium.

Premium income derived from Financial Institutions particularly Public Bank Berhad has always been sizeable and profitable. Efforts to expand its Bancassurance would be intensified. Repackaging of products together with improved servicing skills remain essential to our plan in increasing premium income from the Financial Institutions.

To grow its business, LPI Group will continue to tap on its branch network, introduce new innovative products and improve electronic self service channels such as E-Insurance. The Group will also continue to draw on its strong corporate image and its superior delivery standard to further expand its gross premium income.

OUTLOOK FOR THE MALAYSIAN ECONOMY

Despite the recession in 2009, Malaysia's economic fundamentals remained intact. Based on improved economic conditions in the second half of 2009, the Malaysian economy is projected to grow by 3% in 2010, on the back of the Government's fiscal stimulus, accommodative monetary policy and the expected recovery in world trade. The steady rise in the Leading Index for the Malaysian economy and improved consumer and business sentiment in recent months support the positive outlook for the economy in 2010.

Inflation is projected to remain low in 2010 due to the large output gap and the strong ringgit. On the demand side, aggregate domestic demand is expected to strengthen due to improved labour market conditions which will lead to higher private consumption and investment. Measures taken in the Budget 2010 such as the reduction in the maximum personal income tax rate and increased personal relief will raise disposable income and boost private consumption. Private sector activity is expected

to improve following signs of recovery in the second half of 2009, enabling the Government to consolidate its fiscal position in 2010 and beyond.

On the supply side, whilst growth will be broad-based, it will be led by the services sector. The Government remains committed to make this sector a key driver of growth. Coupled with the liberalisation of the 27 services sub-sectors, the liberalisation of the financial services sector in 2009 to 2011 will support growth in the services sector. The construction sector will continue to benefit from the economic recovery and fiscal stimulus by the Government. Manufacturing is expected to register positive growth on the back of improved trade flows. The agriculture sector is also expected to improve in 2010.

Despite the positive outlook, there remains some downside risks, particularly from the external sector. The ongoing recovery in the developed economies may remain slow due to impaired financial systems and household balance sheets as well as persistent high unemployment.

