



## KURNIA INSURANS (MALAYSIA) BERHAD

(INSURANCE RATING ANALYSIS/General Insurance Financial Strength)  
May 2003

### ANNUAL REVIEW

**Rating** **A** 

#### Rating History

Feb 1999 A  
May 2000 A  
March 2002 A

Contact Analysts:  
Juniza Zahari  
Calvin Leong  
[603] 2092 5398  
marc@marc.com.my

**Rationale** The 'A' general insurance financial strength rating of Kurnia Insurans (Malaysia) Berhad (Kurnia) reflects the company's leading market position in the Malaysian general underwriting market, its strong business franchise; large distribution network and stringent claims controls. Moderating features include a high underwriting concentration in motor lines, that somewhat limitations of the Company's liquidity coverage of technical reserves as well as capitalization's hold on growth.

Kurnia is the largest general and motor insurer in the country with a 12.8% market share of total net premiums and 21.7% of motor net premiums (Bank Negara Malaysia Insurance Annual Report 2001). The company underwrites predominantly motor business, which accounts for over 95% of premiums. It has carved a niche in motor underwriting and its leadership position is supported by a strong agency force. The company's long term goal is to further grow its market share with motor as its core business line.

Scale economies and stringent claims control have contributed to Kurnia's strong underwriting performance. Profitability remains respectable with minimum and average return on assets of 7.1% and 14.8% respectively since 1995. The loss ratio of its motor class displayed relative stability since financial year (FY) 1998 and at 60.3%, remains superior to the industry average. Kurnia's underwriting performance continued to improve during the year but it is the better investment income (in absolute terms) as well as profit from sale of investments that provided the upward swing to augur in a pre-tax profit of RM152.5 million during the year for Kurnia.

On the back of more cautious motor sales and Kurnia's aggressive marketing strategy, MARC expects Kurnia's premium production to only grow in line with the economic changes. Given the heightened competition in the industry and an impending market deregulation, Kurnia's operating ratio is not expected to see significant improvement and at best will stabilize at the current range of 80%.

Investment yields have declined since FY2000, reflecting the lower interest rate environment and with interest rate expected to remain low, MARC does not expect Kurnia's investment yield to move beyond the current level. Whilst Kurnia's exposure to equities increased in absolute terms, the sizeable increase in fixed and call deposits in part mitigates such exposure.

Kurnia's cash flow position remains solid as reflected by the underwriting and total cash flow ratios which were maintained at comfortable levels despite higher underwriting and operating outflows. Total liquid assets have improved to RM663.9 million, but liquid assets coverage of technical reserves nonetheless rose only marginally by 0.1 times, a testament of Kurnia's policies on growth and investment yields.

Despite the increase in quantum of net written premium as well as investment in equities and properties, Kurnia's operating and investment leverages eased during the year, benefiting from the strengthened shareholders' funds, which rose to RM381.9 million during the year. Nonetheless, in light of Kurnia's underwriting and investment risk profile, further strengthening of capital base would certainly be viewed favourably.

	-----FY 30 June -----				
	2002	2001	2000	1999	1998
Underwriting profit (RM'000)	74,205	66,812	47,761	71,394	97,598
Total investment return (%)	7.9	2.8	5.3	13.4	(7.1)
Liquid asset/Technical reserves (%)	0.7	0.6	0.7	1.2	1.2
Operating leverage (x)	2.1	2.3	2.5	2.4	2.5
Technical reserves/ NPW (%)	118.7	127.0	132.0	134.7	133.3

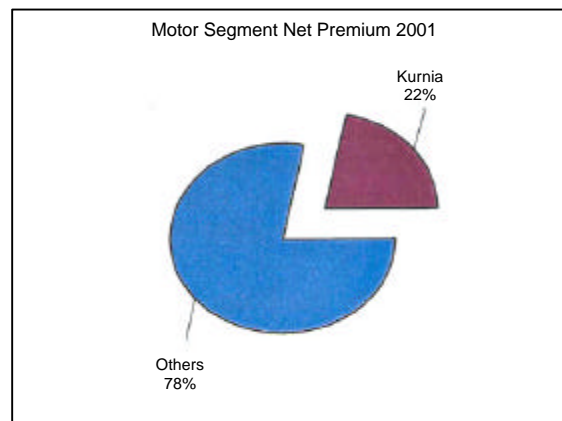
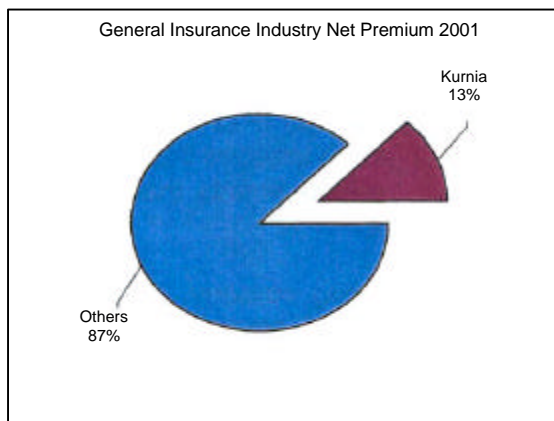
## BUSINESS REVIEW

Kurnia was incorporated in 1977 as Industrial & Commercial Insurance (M) Bhd. In 1991, Kurnia Damai Sdn Bhd, its present shareholder, acquired the entire share capital of the Company and the Company subsequently assumed its present name. The takeover marked a fundamental shift in the Company's business as motor volumes soared. Total gross direct premiums surged to RM113 million in FY1992 from just RM13 million the year before, and have since registered compounded growth of 22% to RM849 million in FY2002.

Statistics	-----FY 30 June -----				
	2002	2001	2000	1999	1998
Gross premiums written (RM'000)	873,737	704,409	570,875	492,040	467,449
Annual change (%)	24.0	23.4	16.0	5.3	(6.8)
Net premiums written (NPW) (RM'000)	789,408	650,254	522,500	434,707	406,106
Annual change (%)	21.4	24.5	20.2	7.0	(5.8)
<i>NPW by line of business (%)</i>					
Motor	94.5	93.3	92.9	92.5	92.1
Fire	1.3	1.7	1.6	1.5	1.4
MAT	0.4	0.3	0.2	0.2	0.2
Miscellaneous	3.8	4.7	5.3	5.8	6.3
<b>TOTAL</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<i>Market share of motor premiums (%)<sup>1</sup></i>	n.a	21.7	20.6	17.6	14.0

n.a : not available

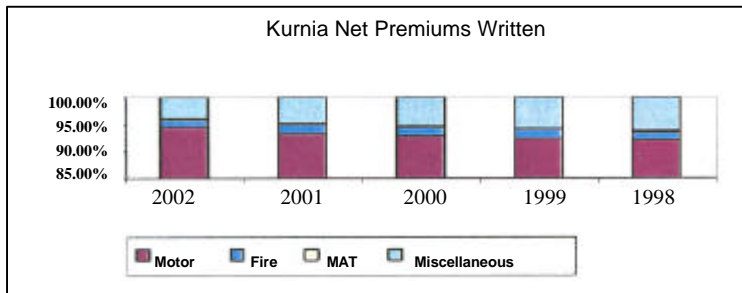
Kurnia maintained its lead position as the largest general insurer in the country with a 12.8%<sup>1</sup> market share of total industry net premiums. The company provides a full range of general insurance products including motor, personal accident, fire, workmen's compensation and other miscellaneous classes of insurance, but has successfully carved a niche in motor underwriting. The motor portfolio accounted for 94.5% of the company's FY2002 net premiums.



Source : Bank Negara Malaysia Insurance Annual Report 2001

Although Kurnia's market share of motor net premiums eased 5.2 percentage points to 21.7%<sup>1</sup> during the year, the Company nonetheless kept its pole position well ahead of competition, with the next largest motor insurer trailing a distant second at 6.9%<sup>1</sup> of total motor net premiums. Its market leadership is supported by a strong agency force, tight premium accountability and aggressive claims control initiatives. Despite lacking the ready client base advantage of being associated with a bank or corporate group, Kurnia has been able to build a sizeable motor account that provides the critical mass for the Company to operate effectively and efficiently as a motor insurer.

<sup>1</sup> Bank Negara Malaysia Annual Report 2001



In September 2000, the High Court granted a vesting order to Kurnia to acquire the insurance business of Nusantara Worldwide Insurance (Malaysia) Berhad (NWI) from Koperasi Polis Diraja Malaysia Berhad. The purchase consideration for NWI was RM14 million with a goodwill on acquisition of RM41.6 million. Kurnia will amortize the goodwill in the income statement over 25 years, or RM1.7 million per annum. Due to the weak underwriting quality of NWI's legacy assets, Kurnia is retaining less than 10% of the acquired business and managing the run-off of the remaining portfolio.

Kurnia Damai completed the acquisition of Asia Dynamic Insurance Co. Ltd in Thailand in FY2000, marking the group's initial foray into the region. The Company was subsequently renamed Kurnia Insurans (Thailand) Co Ltd to allow a common branding across the border. Its geographical expansion is expected to boost the image of the Kurnia Damai group in the region as well as expand its synergetic reach on clients, potentially benefiting Kurnia's own business franchise particularly in the northern states of the Peninsular Malaysia. Nonetheless, the regional expansion does not shift Kurnia's business, financial nor operational fundamentals, as the acquisition was completed by the holding Company of Kurnia.

**Motor** Given its solid presence in the domestic motor insurance business and historically manageable underwriting experience in this segment, Kurnia kept its focus on the motor insurance business. Underpinning the Company's third consecutive year of double digit growth in overall net written premium is the growth experienced by its motor segment., boosted by a strong motor vehicle sales market and Kurnia's aggressive marketing strategy in this area. The Company continued to derive over 95% of total net written premium from its motor portfolio. Private cars continue to dominate the vehicle mix accounting for 84.9% of total motor premiums, with balance comprising commercial vehicle premiums. In terms of policy mix, Kurnia derived 82% of its motor net written premium from non-mandatory motor covers. As value-added service to its policyholders, Kurnia launched its own 24-hour breakdown service called Kurnia Auto Assist (KAA) in October 2000 and has since introduced customer loyalty program which provides discounts and rebates from participating merchants and service providers. Furthermore, to help contain claims arising from theft, the Company has initiated a special task force to handle such cases. The task force also aids in future underwriting by alerting the Company's distribution sources on anomalous thefts on specific motor vehicles. With this, Kurnia managed to maintain its motor renewal rate at 68% for FY2002.

Kurnia continued to retain a high proportion of its business in FY2002 (91.7% vs. 93.5% in previous year for motor class) to illustrate commitment to its own underwriting practices as well as to obtain more favourable rates from its reinsurers, a trend which began in FY2000.

Supported by a strong business franchise in motor insurance with the provision of value-added customer services and further fuelled by passenger car sales in 2001 and 2002, Kurnia is expected to benefit from any growth in the consumer motor market in the near term. Nevertheless, the early signs of possible easing in passenger car sales in 2003 could impede such growth.

**Others** After posting continuous growth in the fire segment since FY1994, net written premium moderated marginally by 7.6% to RM9.9 million. Financial institutions, with which Kurnia maintains reciprocal business relationships, have been the main referrals of the business. Residential properties accounted for about 30% of premium from the fire portfolio and the balance representing commercial buildings.

The Personal Accident (PA) insurance business, the second largest insurance class, accounted for a mere 1.8% of total net written premiums in FY2002, written mainly through agents. PA policies remained a popular cross-selling product marketed to its motor policyholders.

Kurnia's MAT portfolio largely constitutes cargo underwriting. The portfolio's contribution to total net written premium nonetheless remains insignificant at an average 0.3% in the last three years.

On an overall basis, Kurnia's renewal rate moved insignificantly lower to 64.3% in FY2002 from 64.9% previously.

**Distribution Channel** Kurnia is principally a direct underwriter, with inward reinsurance accounting for a mere 2.8% of gross premium income in FY2002. Direct premiums are almost completely sourced through agents, and to a

lesser extent, brokers, with a small amount of business from direct clients. To further entrench its agency strength, the Company has been on an agent recruitment drive over the last few years to augment premium production. As of end-June 2002, the number of agents total 6,658 nation-wide. Regular support and servicing of agents by Kurnia's executives and management has helped preserve agency loyalty. To further develop its non-motor segments, the Company has recently formed a corporate marketing department to support the agents.

A separate corporate department handles the marketing and servicing responsibilities of corporate customers. The Company has also cultivated reciprocal business relationships with certain financial institutions that would channel their customers' insurance requirements to Kurnia in return for fixed deposit placements. In July 2001, the Company entered into a bancassurance arrangement with Hong Leong Finance Berhad to cross sell the Company's motor insurance to the finance company's auto loan customers. Through this arrangement, Kurnia earned premium production of RM13.7 million as at end-June 2002. With this, Kurnia seeks to further expand reciprocal with other banking groups.

## MANAGEMENT AND CORPORATE STRATEGY

**Strategy** Kurnia's long term goal is to further enlarge its domestic market share with motor as its core business line. The management has set a RM1.0 billion gross premium target for FY2003. A cornerstone of the Company's growth is the hands-on approach adopted by its management, in addressing the impediments to growth. The management's commitment to grow its agency network and ensure capable technological support has provided the platform necessary for Kurnia to grow along with the market. While not discounting the potential synergistic benefits of cross-border geographical diversification, the Company will concentrate on growing its domestic presence, leaving its parent Company to anchor the geographic diversification strategy. On future growth, the management envisages organic expansion rather than acquisition.

Despite initial plans to diversify its motor : non motor underwriting mix to 70 : 30, Kurnia remains an insignificant player in the non-motor lines. The Company has been slow to achieve its non-motor target as, unlike other bank-owned insurers, it lacks the opportunities of accessing the client base of banks. The management does not view this as an impediment to growth, but rather as an opportunity for Kurnia to develop multi-reciprocal relationships with various banks. Kurnia also misses out on the advantages that are typically derived from being connected with large multinational insurers such as advanced product development technologies and underwriting expertise for non-motor classes. However, the good relationship Kurnia has maintained with its reinsurers has kept the doors open for Kurnia to leverage on the reinsurers' technical expertise.

The Company will continue to seek opportunities in the non-motor segments in particular the large specialized risk, fire and property segments. With support from a team of experienced underwriters and coupled with the expertise Kurnia could leverage on with its reinsurers, the management is confident on underwriting prudently such non-motor segments. Furthermore, having grown in size over the years and with Kurnia's ready information technology platform, the Company could potentially tap into its already sizeable portfolio of motor accounts to advance its non-motor business.

**Operations** Kurnia undertook a reorganization of its operational structure which involved the decentralization of its business into west and east Malaysia under state level which report to two regional heads. The objective is to enhance the effectiveness of all facets of its business. Each of the state has its own marketing, underwriting and claims teams catering to the specific needs of their particular area. Management believes that the regionalization exercise would result in prompt decision-making and in the longer run, improved profitability with efficient claims settlement.

The sizeable motor portfolio coupled with tight underwriting and claims controls have enabled Kurnia to enjoy respectable underwriting profitability in the past years. The Company believes that effective claims control and achieving critical mass as the keys to maintaining underwriting profitability. Its claims control practices include the aggressive investigation of theft, property damage and bodily injury claims, annual review of panel workshops to weed out recalcitrant operators, stringent control on panel lawyers and adjusters and settlement of claims by asset replacement instead of cash. With rapid expansion in business volumes, the Company also increased the number of claims personnel and in-house surveyors to ensure that claims management remain under control. The internal surveyors focus on insurance claims that are below a certain limit, as through experience, it was found that these claims had a higher risk of being manipulated. In order to expand its business horizontally, Kurnia set up a research and development department in July 2001, for the purpose of developing new general insurance products.

The Company also believes that information technology plays an important role in improving internal operating efficiency and is effective in servicing the increased expectations of policyholders. Its management information system is equipped with a comprehensive database that enables detailed analyses to be conducted. The successful integration of its cover note issuance, underwriting and accounting functions in 1998 has significantly improved premium accountability and collection.

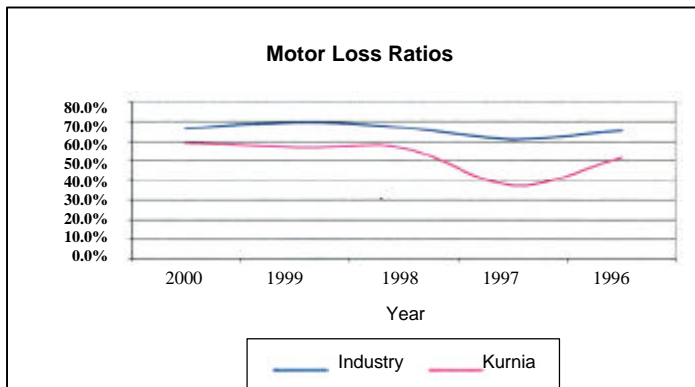
## OPERATING/UNDERWRITING PERFORMANCE

Statistics	-----FYE 30 June -----				
	2002	2001	2000	1999	1998
Underwriting profit (RM'000)	74,205	66,812	47,761	71,394	97,598
Profit before tax (RM'000)	152,477	86,385	88,261	168,292	61,132
Pre-tax profit/Average assets (%)	11.6	7.8	8.7	17.9	7.1
Loss ratio (%)	58.7	57.2	56.9	54.7	53.8
Expense ratio (%)	27.7	28.7	30.5	26.8	24.1
Combined ratio (%)	86.4	85.9	87.4	81.5	77.9
Operating ratio (%)	80.4	79.8	80.8	69.2	64.9
<b>Portfolio performance</b>					
Net investment income (RM'000)	44,002	39,375	31,473	51,058	54,904
Yield on invested assets (%) *	4.6	4.7	4.2	7.0	7.3
Total investment return (%)	7.9	2.8	5.3	13.4	(7.1)
<i>Portfolio composition (%)</i>					
Cash and deposits	44.1	32.3	38.0	74.5	63.0
Public securities	10.0	13.4	13.9	21.0	25.9
Private debt securities (PDS)	23.8	30.4	23.8	2.9	0.0
Shares	14.8	17.0	21.4	0.0	5.5
Loans	5.2	6.1	1.7	1.1	5.3
Others	2.2	0.8	1.2	0.5	0.3

\*Excludes profit/(loss) on disposal of investments

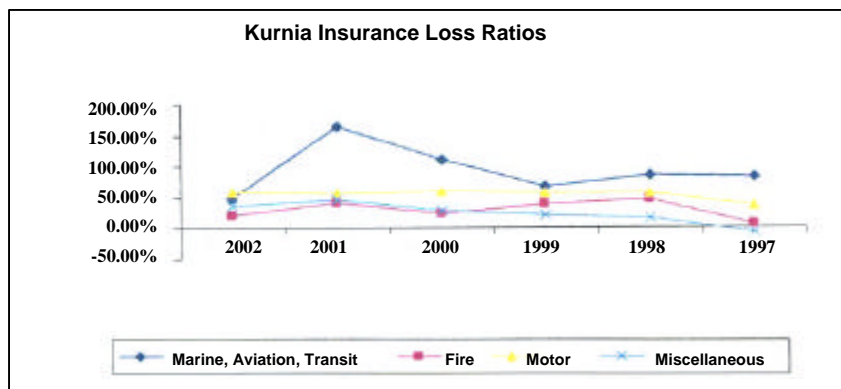
Kurnia's underwriting performance continued to improve for the second consecutive year (+11%), underpinned by industry growth, scale economies and a stringent claims control operation. All lines continue to generate underwriting profits, with the MAT segment returning to the black after two years in the red. Along with a favourable underwriting result, it is the better investment income as well as profit from sale of investments that provided the upward swing to augur in a pre-tax profit of RM152.5 million during the year for Kurnia.

Kurnia's posted third consecutive double digit growth in its motor segment's net written premium, driving the Company's double digit underwriting result. The motor loss ratio has displayed relative stability in the past five years, having averaged 58.1% and albeit marginally higher at 60.3% in FY2002. However, in comparison to the industry's motor loss ratio, the motor segment's performance is considered within expectations and control of the management.



Source : Bank Negara Malaysia Insurance Annual Report & Kurnia

On an overall basis, Kurnia's loss ratio continued to edge marginally higher during the year under review, a trend observed since FY1998 when losses from fire and motor strained overall performance. MARC observed the volatile loss ratios of Kurnia's MAT and fire segments, as compared to its motor and miscellaneous segments, as well as the industry's average. This further affirms Kurnia's clear competency in the area of motor underwriting.



Meanwhile, intensified marketing and promotion efforts for its products and services resulted in Kurnia posting higher management, expense and commissions in absolute terms (+17.7%). The Company nonetheless gained from such expenditure, as economies of scale worked to lowered the overall expense ratio marginally to 27.7% (FY2001: 28.7%).

In line with Kurnia's objective to expand its business, the Company has historically utilized minimal reinsurance as a means of managing underwriting exposure. Yet the predominantly treaty-based reinsurance arrangement bodes well for the Company in ensuring a readily available reinsurance source yearly.

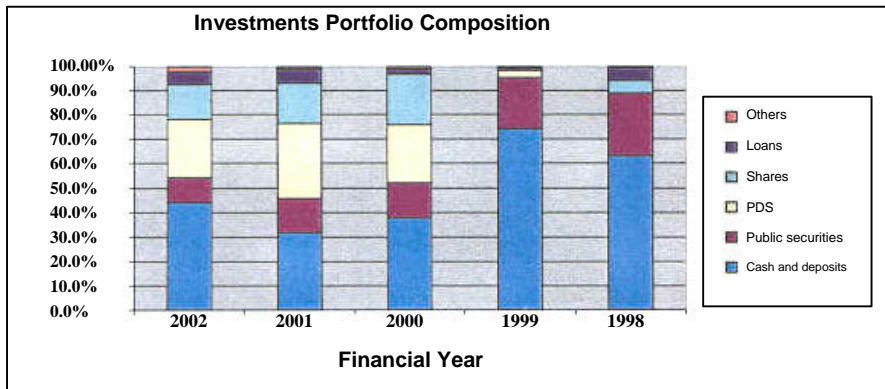
On the back of more cautious motor sales and given Kurnia's aggressive marketing strategy, MARC expects Kurnia's premium production to grow in line with economic changes. Given the heightened competition in the industry and an impending market deregulation, Kurnia's operating ratio is not expected to see significant improvement and at best will stabilize at the current range of 80%. Furthermore, with market returns likely to remain soft in the near future, the Company's investment performance is expected to play a supportive role in determining the Company's ultimate earnings.

## INVESTMENTS

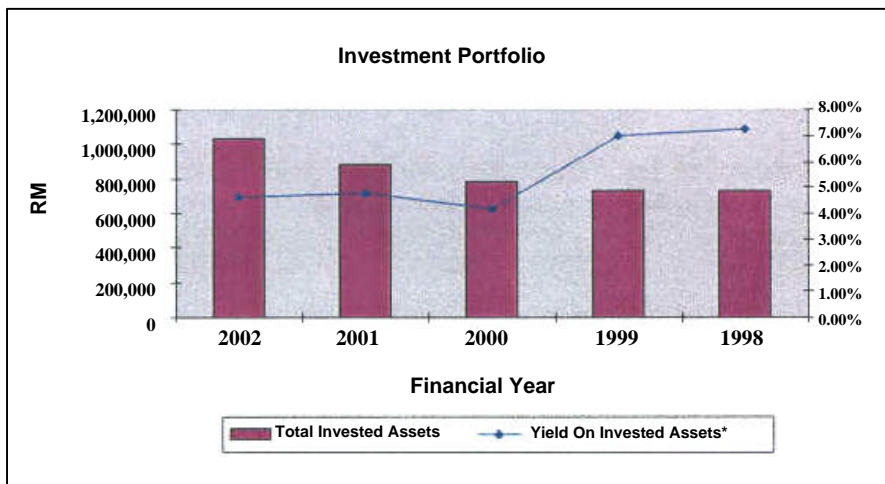
Kurnia's investment strategy has switched from one which emphasizes liquidity to one which balances yields with liquidity. Since 1999, a separate Treasury division was established to actively manage the investment function where previously the Company took a passive investment style. Nevertheless, in its activities, the foremost priority of the division is to ensure capital preservation. The division is currently actively managed by five investment personnel, making recommendations for which decisions are made by an investment committee comprising the EXCO members, which meet on an ad-hoc basis as and when investment opportunities arise. The decision to realize investment losses in FY98 and FY2001 was two-pronged: to cut losses in anticipation of further weakening of stock prices, and secondly to maximize allowable deductions for tax purposes.

Kurnia's investment policy by and large follows after the guidelines as allowed by Bank Negara Malaysia. Its equity portfolio is held with a view of gaining long-term returns, selected based on strategic considerations including potential business referrals. Policy on investing in PDS is within the guideline of a minimum BBB rating, with no industry limitations or concentration guides. Nevertheless the Company presently holds a portfolio minimum A flat/ A2 rating with an average of AA flat/ AA2 rating.

Due to the unattractive returns from the money market as a result of the low interest rate environment, the Company started to diversify its investment portfolio into equity and corporate bonds in FY2000 to enhance investment yield. With Kurnia's invested assets hitting in excess of RM1.0 billion in FY2002, the proportionate composition of equity and PDS in Kurnia's portfolio lowered to 14.8% and 23.8% respectively, from 17.0% and 30.4% previously. Nevertheless, in absolute terms, the Company raised its investments in equity during the year, increasing equity exposure by 2% while reducing its PDS exposure by 8%. More significantly, the Company almost doubled its fixed and call deposits in absolute terms, partly in line with its objective to gain reciprocal business from the banks. Albeit not representing a sizeable portion, Kurnia's equity investments undoubtedly exposed the Company to greater valuation fluctuations as well as dividend uncertainties. This is in part mitigated by the higher fixed and call deposits.



Yields have declined since FY2000 with a three-year average of 4.5% (FY2000 to FY2002) compared to 5.3% in the preceding three years (FY1999 to FY2001), reflecting the lower interest rate environment. Upon including the gains on disposal of investments during the year, total investment return moved higher to 7.9% compared to 2.8% previously. Nevertheless, Kurnia's three-year average total investment return narrowed to 5.3% from 7.2% previously, reflecting the more volatile investment earnings from sale of investment assets. With interest rate expected to remain low in the short term, MARC does not expect investment yields to move beyond the current level.



## LIQUIDITY AND CASH FLOW

Statistics	-----FYE 30 June -----				
	2002	2001	2000	1999	1998
Underwriting cash flow ratio (%)	131.1	122.2	136.5	133.9	156.1
Total cash flow ratio (%)	136.7	116.4	100.6	1229	123.6
Liquid assets/Technical Reserves (x)	0.7	0.6	0.7	1.2	1.2

Liquid assets level saw further improvements for the second consecutive year, rising 29.0% to RM663.9 million after a deterioration in FY2000, the year when the Company began to place a higher proportion of funds in equities. Despite improved liquidity in FY2002, liquid assets coverage of technical reserves only rose a marginal 0.1 times, as the quantum of technical reserves continued its upward climb to post RM937.4 million (FY2001: RM826.0 million). This is a testament of the policies adopted by Kurnia on its growth and investment yields. The deterioration of this indicator, which examines the Company's ability to respond quickly to heavy cash calls, is somewhat mitigated by the fact that Kurnia's liabilities are not concentrated on large risks nor those of catastrophic in nature and have displayed fairly consistent claims patterns.

Nonetheless its cash flow position remains strong and within comfortable levels, despite the higher claims payment, commission and operating expenses. Remaining modest, the level of outstanding premiums and agents' balances has increased slightly to 7.8% from 6.1% previously, equating to approximately a rise to 29 days ageing from 22 days.

## CAPITALIZATION

Statistics	-----FYE 30 June -----				
	2002	2001	2000	1999	1998
Operating leverage (x)	2.1	2.3	2.5	2.4	2.5
Investment leverage (%)	45.7	56.5	83.6	2.2	25.9
Loss reserves/Shareholders' funds (x)	1.6	2.0	2.2	2.2	2.3
Technical reserves/NPW (x)	1.2	1.3	1.3	1.3	1.3
Reinsurance usage ratio (%)	9.9	7.8	8.8	12.3	14.0

Kurnia's capitalization is deemed adequate presently. The Company's share capital as at end FY2002 was RM200 million, double the regulatory requirement. Shareholders' funds rose 37.7% to RM381.9 million arising from profit capitalization, but is considered marginal relative to its insurance and increased investment risks. Despite the increase in quantum of net written premium and as well as investment in equities and properties, Kurnia's operating and investment leverages eased during the year, benefiting from the strengthened shareholders' funds. Nonetheless, in light of Kurnia's underwriting and investment risk profiles, as well as in view of the management's near term RM1.0 billion gross premium target, further strengthening of the capital base would certainly be viewed favourably.

Total admitted assets represented about 1.1 times the aggregate of liabilities and the computed margin of solvency, equivalent to an excess of over RM91.5 million. The Company does not have a formal dividend policy and dividends of RM70.0 million were recommended for FY2002.

## RESERVES

Statistics	-----FYE 30 June -----				
	2002	2001	2000	1999	1998
Technical reserves (RM'000)	937,361	826,035	689,713	585,408	541,490
Technical reserves/NPW (%)	118.7	127.0	132.0	134.7	133.3
Claims reserves/NPW (%)	76.5	84.8	88.1	91.6	92.1
Technical reserves/Incurred losses (%)	218.6	237.4	252.3	258.2	237.7

Kurnia's reserves appear adequate. Loss reserves strengthened by 9.5% to RM603.8 million, or 0.76 times net premium. Case estimates are based on the average claims size for similar experiences in the preceding year.

Case provisioning is reviewed internally and the methodology is reviewed by external actuarial consultants, William M. Mercer Zainal & Fraser. The Payment per Claim Incurred method was used to determine the estimated outstanding claims for the Motor-Act class while the Link ratio method with the Bornhuetter-Ferguson (BF) adjustment was adopted for the Motor non-Act class. The total estimated net IBNR provision amounted to RM258.4 million as at end-June 2002.

## REINSURANCE

Reinsurance usage increased in FY2002, on a backdrop of consecutive reduction since FY1998. For the motor class, the voluntary cession through Malaysian National Reinsurance Berhad (MNRB) was lowered to 7.5% of gross motor premiums since June 2001 from 10% previously. The MAT class is written with a stronger support of reinsurance protection, evidenced by the much lower retention levels as compared to other classes. Kurnia's per risk retention on the motor account, which was historically maintained at RM250,000 since July 1996, was increased to RM350,000 with excess of loss treaties covering motor claims in excess of the net retention amount. The FY2002 per risk retention levels for non-motor insurance is as follows:

Fire	Maintained at RM2.0 million.
Miscellaneous	Maintained at RM0.4 million.
PA	Maintained at RM0.3 million.
Marine/ Cargo	Maintained at RM0.4 million.
Engineering	Maintained at RM2.0 million.
Bond	Maintained at RM0.4 million.

Kurnia's exposure to credit risk of re-insurers is low. After nearly doubling in FY2001, reinsurance recoverables eased slightly to RM52.9 million in FY2002, representing 13.8% of shareholders' funds. Kurnia has thus far managed this risk well as no major recovery problems have surfaced. Reinsurance security is generally acceptable with large reinsurers carrying minimum ratings of single A.

Reinsurer Ratings	A.M. Best	Standard & Poor's	Moody's	Fitch Ratings
Swiss Re	A++	AA+	Aa1	AA+
Munich Re	A++	AA-	Aa3	AA+
Labuan Re	B++	n.a.	n.a.	n.a.
MNRB	NR-5	BBB <sub>pi</sub>	n.a.	n.a.
China Re	A-	A-	n.a.	n.a.

n.a : not available

Retention limits are reviewed regularly and are determined based on the level of shareholders' funds as well as the spread and volume of business.

*This communication is not an offer to sell or a solicitation of an offer to buy the securities mentioned. The information contain herein is derived from publicly available sources or has been approved for publication by the rated entity and Malaysian Rating Corporation Berhad makes no representation as to the accuracy or completeness of such information.*

**@ 2003 Malaysian Rating Corporation Berhad**

## KURNIA INSURANS (MALAYSIA) BERHAD

Menara Kurnia, Blok B4, Leisure Commerce Square, No. 9, Jalan PJS 8/9,  
46150 Petaling Jaya, Selangor  
TEL : (603) 7875 3333 FAX : (603) 7875 9933  
Website: [www.kurnia.com.my](http://www.kurnia.com.my)

### BOARD OF DIRECTORS

Chairman : Y Bhg. Datuk Kua Sian Kooi  
Deputy Chairman : Tuan Haji Abdul Samad b. Haji Salleh  
Managing Director/CEO : Mr. Adrian Loh Heong Chow  
Directors : En. Ali Riza bin Haji Abdul Samad  
Mr.Yuen Choong Lai

### MAJOR SHAREHOLDER

Kurnia Damai Sdn Bhd : 100.0%

**PROFIT AND LOSS ACCOUNT**
*Financial Year Ending: June 30*
**RM '000**
**GENERAL INSURANCE REVENUE ACCOUNT**

	2002	2001	2000	1999	1998
Gross Premiums - direct business	849,203	694,301	548,391	465,059	438,095
- reinsurances accepted	24,534	10,108	22,484	26,981	29,354
	873,737	704,409	570,875	492,040	467,449
Less - Reinsurance	84,330	54,155	48,375	57,333	61,343
Net Premiums Written	789,407	650,254	522,500	434,707	406,106
Add: Dec/(Inc) in reserve for unexpired risks	(58,688)	(41,972)	(42,061)	(19,932)	17,042
Earned Premium Income	730,719	608,282	480,439	414,775	432,148
Gross claims paid less salvage	418,479	361,116	258,023	229,984	200,852
Less: Reinsurance recoveries	42,317	30,482	25,184	27,235	24,454
Net claims paid	376,162	330,634	232,839	202,749	176,398
Add: Inc in provision for claims	52,638	17,302	40,498	23,986	51,421
Net claims incurred	428,800	347,936	273,337	226,735	227,819
Net Commissions	86,467	73,783	60,742	48,114	41,752
Management Expenses	141,247	119,751	98,599	68,532	55,979
	227,714	193,534	159,341	116,646	97,731
Underwriting result	74,205	66,812	47,761	71,394	97,598
Investment Income	44,002	39,375	31,473	51,058	54,904
(Increase in)/ Writeback of provision for bad and doubtful debts	0	0	(543)	(2,495)	(1,663)
Other expenditure	34,270	(19,802)	9,570	48,335	(89,707)
Net other Income/(Outgo)	78,272	19,573	40,500	96,898	(36,466)
<b>PROFIT BEFORE TAX</b>	<b>152,477</b>	<b>86,385</b>	<b>88,261</b>	<b>168,292</b>	<b>61,132</b>
Taxation	47,979	21,540	29,000	0	756
<b>PROFIT AFTER TAX</b>	<b>104,498</b>	<b>64,845</b>	<b>59,261</b>	<b>168,292</b>	<b>60,376</b>
<b>RETAINED PROFITS/(LOSS) B/F</b>	<b>77,352</b>	<b>62,507</b>	<b>83,246</b>	<b>64,954</b>	<b>120,860</b>
Prior year adjustment	0	0	0	0	0
Capitalisation for bonus issue	0	50,000	50,000	0	70,282
Dividends	0	0	30,000	150,000	46,000
<b>RETAINED PROFITS/(LOSS) C/F</b>	<b>181,850</b>	<b>77,352</b>	<b>62,507</b>	<b>83,246</b>	<b>64,954</b>

**BALANCE SHEET**
*Financial Year Ending : June 30*
**Cash and Deposits**

	2002	2001	2000	1999	1998
Cash and bank balances	28,991	35,138	17,547	16,702	16,579
Fixed deposits / money market	426,067	248,358	280,622	525,777	442,355
<b>Investments</b>					
Malaysian Government papers	65,626	79,773	70,701	135,429	158,010
Cagamas Papers	37,035	37,826	37,859	17,858	31,083
Debentures, Bonds, Loan Stocks	285,886	310,440	191,227	20,753	100
Equity and property unit trust	14,711	7,158	9,534	3,833	2,454
Shares	152,194	149,404	168,009	101	40,192
Other Investments	7,500	0	0	0	0
<b>Loans &amp; Mortgages</b>	<b>12,863</b>	<b>9,347</b>	<b>8,583</b>	<b>8,130</b>	<b>38,255</b>
<b>Other Assets</b>					
Outstanding premiums and agents' balances	66,489	42,343	23,456	26,794	12,550
Amount due from reinsurers/ceding companies	18,334	15,476	5,906	6,384	6,341
(Provision for doubtful debts)	(43,430)	(35,821)	(14,410)	(13,905)	(11,408)
Other debtors, deposits and prepayments	72,745	36,274	29,089	99,173	15,578
<b>Goodwill</b>	<b>32,507</b>	<b>40,169</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Property and equipment</b>	<b>245,633</b>	<b>231,271</b>	<b>181,726</b>	<b>168,695</b>	<b>108,436</b>
<b>TOTAL ASSETS</b>	<b>1,423,151</b>	<b>1,207,156</b>	<b>1,009,849</b>	<b>1,015,724</b>	<b>860,525</b>
<b>LIABILITIES</b>					
Provision for outstanding claims	656,706	610,056	490,769	427,715	402,943
(Recoverable from reinsurers)	(52,862)	(58,850)	(30,527)	(29,717)	(28,931)
Net Outstanding Claims	603,844	551,206	460,242	397,998	374,012
Amount due to agents/insureds	2,708	2,421	1,573	1,155	1,723
Amount due to reinsurer and ceding companies	24,702	40,861	10,797	46,655	41,764
Proposed dividend	0	0	30,000	150,000	46,000
Provision for taxation	34,252	17,562	26,418	16,989	41,151
Amount due to holding company			0	0	0
Deferred taxation	4,459	3,302	3,302	3,302	3,302
Staff retirement benefits	5,520	4,428	4,622	3,041	2,438
Other creditors and accrued liabilities	32,794	35,195	30,917	25,928	17,703
<b>Reserves for Unexpired Risks</b>	<b>333,517</b>	<b>274,829</b>	<b>229,471</b>	<b>187,410</b>	<b>167,478</b>
<b>Shareholders' Fund</b>					
Share capital	200,000	200,000	150,000	100,000	100,000
Share premium account	0	0	0	0	0
Reserves	181,850	77,352	62,507	83,246	64,954
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>	<b>1,423,151</b>	<b>1,207,156</b>	<b>1,009,849</b>	<b>1,015,724</b>	<b>860,525</b>

**RATING SYMBOLS & DEFINITIONS**  
**INSURANCE COMPANY CLAIMS-PAYING ABILITY RATINGS**

**SECURE RANGE**

<b>AAA</b>	Insurance companies rated AAA possess an exceptionally strong ability to meet their policyholder obligations, and are most unlikely to be affected by adverse changes in economic and underwriting conditions.
<b>AA</b>	Insurance companies rated AA possess a very strong ability to meet their policyholder obligations. Their overall risk profile, while low, is not quite as favourable as for insurance companies in the highest rating category.
<b>A</b>	Insurance companies rated A possess strong ability to meet their policyholder obligations but are somewhat more susceptible to adverse changes in economic and underwriting conditions than companies in higher-rated categories.
<b>BBB</b>	Insurance companies rated BBB possess an adequate ability to meet their policyholder obligations. However, adverse changes in economic and underwriting conditions over time could affect their claims-paying ability.

**VULNERABLE RANGE**

<b>BB</b>	Insurance companies rated BB exhibit some weaknesses in their operating profile and / or financial condition. Currently able to meet their policyholder obligations, but claims-paying ability is regarded as marginal and cannot be assured over a long period of time. Such companies are vulnerable to adverse changes in economic and underwriting conditions.
<b>B</b>	Insurance companies rated B exhibit fundamental weaknesses in their operating profile and / or financial condition. Currently able to meet their policyholder obligations, but claims-paying ability is regarded as weak. Such companies have limited capacity to withstand adverse changes in economic and underwriting conditions.
<b>C</b>	Insurance companies rated C possess a very weak ability to meet their policyholder obligations. The continued capacity of these companies to meet their policyholder obligations is poor and highly dependent on favourable economic and underwriting conditions.
<b>D</b>	Insurance companies rated D possess an inadequate ability to meet their policyholder obligations. Such companies require periodic external support or regulatory intervention without which their continued viability is in doubt. The rating indicates that a default may have already occurred or there is a high likelihood of default on their policyholder obligations.

NOTE : Ratings from AA to B may be modified by the addition of a plus (+) or minus (-) suffix to show relative standing within the major rating categories.

**THIS PAGE IS INTENTIONALLY LEFT BLANK**

Published and Printed by:

**MALAYSIAN RATING CORPORATION BERHAD**

Company No. :364803 V

5<sup>th</sup> Floor, Bangunan Malaysian Re, No 17 Lorong Dungun, Damansara Height,  
50490 KUALA LUMPUR

Tel : [603] 2092 5398 Fax : [603] 2092 9397 Email : marc@marc.com.my