



MALAYSIAN RATING CORPORATION BERHAD
(Company No.: 364803 V)

KURNIA INSURANS (MALAYSIA) BERHAD

INSURANCE FINANCIAL STRENGTH RATING Annual Review – March 2004

Rating Action	Upgraded	A+
Rating History	May 2003	A
	March 2002	A
	May 2000	A
	February 1999	A
Rating	General Insurance Strength	
Sector	General Insurance	
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CREDIT ANALYSIS

INSURANCE RATING ANALYSIS/ GENERAL INSURANCE

Annual Review – March 2004

KURNIA INSURANS (MALAYSIA) BERHAD

Rationale

Kurnia Insurans (Malaysia) Berhad's (Kurnia) general insurance strength rating has been upgraded to A+ to reflect the Company's ability to maintain its leadership in the Malaysian motor insurance industry for the past eight consecutive years, realize its business strategies, improve its business operations, as well as its continuous success in introducing innovative products into the market. The rating, however, continues to be moderated by high concentration in the motor business.

Kurnia is the largest general and motor insurer in the country with a 13.4% share of the market's total net premiums and 22.6% share of its motor net premiums respectively. The strength of Kurnia's motor business is attributable to its continuous marketing efforts, strong relationships with agents and other business associates, the success of its customer loyalty programs, provisions of value-added services such as Kurnia Auto Assist (KAA), and effective claims management. Over the next two years, Kurnia targets to capture 30.0% share of the local motor insurance market. This is deemed achievable given the anticipated improvement in new vehicle sales in 2004, strong economic growth forecast and attractive hire purchase terms. Moreover, Kurnia's proposed listing will enhance Kurnia's brand image and customer acceptance. Kurnia is also moving actively into non-motor sectors, evidenced by the 32.9% increase in non-motor gross premiums to RM79.9 million in FY2003.

Kurnia's overall underwriting results improved by 39.6% to RM103.6 million (FY2002: +11.1%). Expense ratio was also marginally lower at 27.4% (FY2002: 27.7%) due to management's strict cost control measures. Nevertheless, the growth in pretax profits has moderated to 8.1% compared to FY2002 (+ 76.5%). This was attributable to the weak investment performance resulting from the unfavourable stock market condition and low interest rate environment during FY2003.

In FY2003, Kurnia increased its composition of liquid assets to 72.6% (FY2002: 66.2%) and reduced its composition of equity and PDS to 11.0% and 11.4% respectively. The lower investment leverage of 32.0% (FY2002: 45.7%) has contributed to the marginal reduction in investment yield to 4.2% (FY2002: 4.6%). Nevertheless, investment leverage is expected to increase and investment performance is expected to improve in FY2004.

Kurnia's total cash flow position remained strong in FY2003, despite a slight reduction to 123.0% (FY2002: 133.3%). The 11.7% increase in the level of liquid assets to RM763.0 million (FY2002: RM682.9 million) also contributed to the improvement in liquid assets coverage of technical reserves and liabilities to 0.76x and 0.70x respectively.

Kurnia's share capital remained at RM200.0 million as at 30 June 2003, double the regulatory requirement. Total shareholders' funds rose by 12.4% in FY2003 to RM429.1 million due to higher net profits registered during the year amounting to RM117.3 million (FY2002: RM104.5 million). This has led to an improvement in the Company's operating and investment leverages to 2.0x and 32.0% respectively.

Financial Highlights

FY 30 JUNE	2003	2002	2001	2000	1999
Underwriting profit (RM'000)	103,587	74,205	66,812	47,218	68,899
Total investment return (%)	6.4	7.9	2.8	5.3	13.4
Liquid asset/Technical reserves (%)	0.8	0.7	0.6	0.7	1.2
Operating leverage (x)	2.0	2.1	2.3	2.5	2.4
Technical reserves/Net premiums (%)	116.7	118.7	127.0	132.0	134.7

BUSINESS DESCRIPTION

Introduction

Kurnia Insurans (M) Berhad (Kurnia) was incorporated in 1978 as Industrial & Commercial Insurance (M) Bhd. In 1991, Kurnia Damai Sdn Bhd acquired the entire share capital of the Company and subsequently changed its name to the present form. Kurnia is principally engaged in the underwriting of general insurance. As at 30 June 2003, its authorized and paid up capital stood at RM300.0 million and RM200.0 million respectively.

In 2000, Kurnia completed the acquisition of Nusantara Worldwide Insurance (M) Sdn Bhd (NWI), a general insurer with a heavy concentration in the non-motor sector, from Koperasi Polis Diraja Malaysia Berhad. This was in line with Kurnia's diversification plans, as well as Bank Negara Malaysia (BNM's) efforts to consolidate the insurance industry.

In August 2001, Kurnia Damai, the present holding company acquired Asia Dynamic Insurance Co. Ltd in Thailand, 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.

INDUSTRY ANALYSIS

In line with Malaysia's real Gross Domestic Product (GDP) growth of 5.2% in 2003 (2002: 4.1%) and the recovery of the global insurance market, the insurance industry expanded further by 11.7% in combined premium income for both general and life insurance businesses to RM18.8 billion (2002: RM16.9 billion). Gross direct premiums of the general insurers alone rose by 9.9% to RM8.2 billion in 2003 (2002: RM7.4 billion), with motor business continuing to be the key contributor (44.0%), followed by fire (19.4%), and marine, aviation and transit (MAT) (11.3%) classes. The growth in gross direct premiums moderated during the year (2002: +16.3%) due to the considerably slower motor premium growth of 5.1% (2002: +10.9%) following the slowdown of motor vehicle sales in anticipation of cheaper prices under the ASEAN Free Trade Area (AFTA) agreement, as well as the softening of MAT premium rates compared to the significant price hikes in 2002 subsequent to the September 11 terrorist attacks¹. Another direct effect of the terrorist attacks was the application of a terrorism exclusion clause to all general insurance policies with effect from 1 January 2002. This was in response to a similar move by many of the world's leading reinsurance companies to exclude terrorism cover from their reinsurance treaties.

Whilst 10 out of the 36 direct insurers registered more than RM300.0 million in gross direct premiums each in 2003, 9 insurers were still operating below capacity, recording an average gross direct premiums of RM66.0 million each². Bank Negara Malaysia (BNM) believes that the low business volume is both not viable and does not commensurate with the revised minimum paid-up capital of RM100.0 million³. There is, therefore, still room for further consolidation especially among the smaller insurers. As at 30 June 2003, 15 mergers and acquisitions (M&As) involving 28 insurers were completed, reducing the total number of direct insurers in the industry from 58 in 1999 to 43⁴.

The overall retention ratio of the general insurance industry reduced marginally to 85.5% in 2003 (2002: 86.9%), attributable mainly to the decline in retention of MAT and the large construction and engineering classes of business⁵. Under the Financial Sector Masterplan (FSMP), BNM has approved the phased removal of voluntary cessions to Malaysian National Reinsurance Berhad (MNRB) to enhance competition in the reinsurance sector and to enable direct reinsurers to increase their retained income. Therefore, effective from 1 January 2003, the level of voluntary cessions has been reduced from 25.0% to 5.0% for each class of general reinsurance business. On the other hand, the termination of MNRB's retrocession business with effect from the same date is expected to have a negative impact on insurers' gross premium income.

¹ BNM Insurance Annual Report 2003.

² BNM Insurance Annual Report 2003.

³ With effect from 30 September 2001, pursuant to section 18 of the Insurance Act 1996.

⁴ Economic Report 2003/2004.

⁵ BNM Insurance Annual Report 2003.

The general insurers' underwriting profits improved significantly by 129.4% to RM534.1 million in 2003 (2002: RM232.8 million) owing mainly to the 9.2% growth in earned premium income which more than offset the 4.1% combined increase in net claims incurred, net commissions and management expenses. The increase in underwriting profits, coupled with the sizeable amount of capital gains and investment income, led to a 72.0% surge in operating profits to RM1.4 billion in 2003 (2002: RM0.8 billion). The overall claims ratio improved to 59.0% (2002: 62.9%), the lowest level registered since 1998. This was attributable to the favourable claims experience in all classes of business, except motor, owing to more stringent underwriting and the release of reserves.⁶

The claims ratio for the Motor 'Act'⁷ business climbed to 161.7% in 2003 (2002: 141.5%), its highest level in the past five years. The increase in the overall motor claims ratio to 69.7% (2002: 67.1%) was caused by the sharp increase in theft claims from RM135.0 million in 1997 to RM570.0 million in 2003⁸. As part of General Insurance Association of Malaysia (PIAM)'s on-going efforts to counter the escalating number of thefts in the industry, as well as to assist in the recovery of stolen vehicles, it has collaborated with insurers to offer free sandblasting of vehicle registration numbers on the front and rear windscreens and quarter-glass of motor vehicles to comprehensive motor insurance policy holders. PIAM has also urged manufacturers to introduce reliable and effective anti-theft devices in their products, and initiated an incentive scheme for motorists to adopt anti-theft measures.

Following the Road Transport Department (RTD) ruling, all insurers will be able to issue insurance cover notes for motor vehicles electronically (e-cover notes) through the implementation of JPJ-Insurans link-up, effective from the proposed date of 1 January 2004. In relation to this, Pos Malaysia and Services Holdings Bhd (Pos Malaysia) is negotiating with PIAM to allow it to become the corporate agent for more insurance companies⁹, as part of its drive to become a one-stop centre for the renewal of road tax and motor insurance.

All insurers are also required to comply with BNM's directive for all vehicle accident claims to use a centralized database for motor parts prices and labour charges in estimating repair cost¹⁰, effective from the proposed date of 1 January 2004. The database built by Motordata Research Consortium Sdn Bhd (MRC) is aimed at reducing subjectivity in claims assessment and shortening claims approval time. A claims processing centre (CPC) is also established to record all motor claims, monitor and track fraudulent claims, provide history on vehicles and their owners, as well as connect insurers, loss adjusters and repairers online.

As part of its on-going efforts to enhance the overall industry's standards of professionalism, transparency and accountability in the interest of consumers, PIAM introduced a set of fair practices guidelines in mid 2003. BNM has also collaborated with industry players to launch a 10-year Consumer Education Programme on 29 August 2003, in order to enhance consumer awareness and understanding of insurance issues. Other initiatives undertaken include improving claims processing, simplification of insurance policy wordings and translation of policy documents into Bahasa Melayu.

With effect from 5 November 2003, insurers' investment limits in the combined secured and unsecured credit facilities¹¹ was revised upwards from 40.0% to 45.0% of their margin of solvency (MOS). The limit on unsecured credit facilities¹² alone would be increased from 30.0% to 35.0% of an insurer's MOS. The revision will allow insurers to better match their insurance liabilities with investment assets. Effective from 1 January 2004, these limits were further increased to 50.0% and 40.0% respectively. Nevertheless, insurers are required to hold a minimum of 10.0% of their MOS in low-risk assets¹³.

⁶ BNM Insurance Annual Report 2003.

⁷ Compulsory insurance cover required under the Road Transport Act 1987.

⁸ BNM Insurance Annual Report 2003.

⁹ Pos Malaysia is only allowed to act for two principal insurers for each type of business, under the existing inter-company agreement.

¹⁰ The processing fee was reduced from RM20 to RM10 per claim effective from 1 August 2003.

¹¹ Which includes private debt securities such as bonds, notes, debentures and local stocks, as well as convertible debt securities before their conversion to equities.

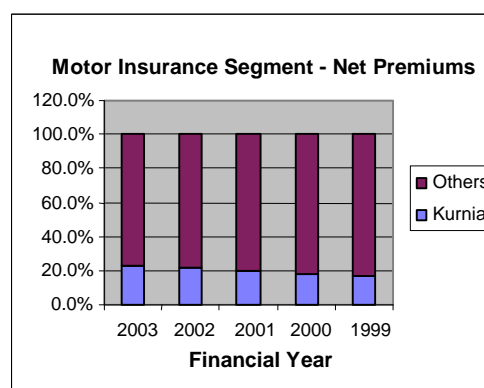
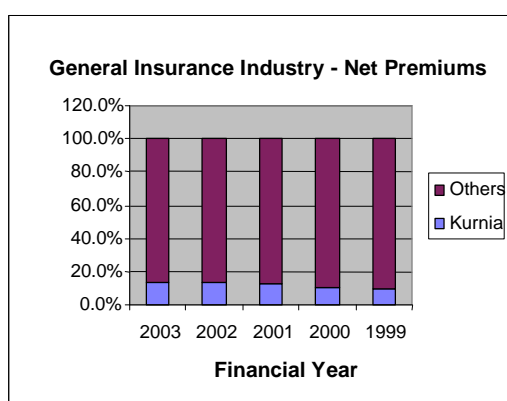
¹² An unsecured credit facility under the framework must be of a minimum rating of BBB, P3 or its equivalent given by a rating agency established in Malaysia or by an internationally recognized rating agency.

¹³ Which include securities and papers issued by the government and BNM.

BUSINESS ANALYSIS

Statistics	----- FY 30 June -----				
	2003	2002	2001	2000	1999
Gross premiums (RM'000)	951,497	873,737	704,409	570,875	492,040
Annual change (%)	8.9	24.0	23.4	16.0	5.3
Net premiums (RM'000)	864,195	789,407	650,254	522,500	434,707
Annual change (%)	9.5	21.4	24.5	20.2	7.0
<i>Net premiums by line of business (%)</i>					
Motor	93.7	94.5	93.3	92.9	92.5
PA	1.8	1.8	2.7	3.2	4.2
Fire	1.2	1.3	1.7	1.6	1.5
MAT	0.7	0.4	0.3	0.2	0.2
Miscellaneous	2.6	2.0	2.0	2.1	1.6
TOTAL	100.0	100.0	100.0	100.0	100.0
Market share of motor net premiums (%) ¹⁴	22.6	22.3	20.0	17.5	16.7

In 2002/2003, Kurnia again secured the pole position as the country's largest general insurer with a 13.4% share of the industry's net premiums (2001/2002: 13.1%)¹⁵, reflecting customer's acceptance and confidence in its products and services. After enjoying double digit growth in gross premium income in the past three consecutive years, the Company registered a lower growth of 8.9% to RM951.5 million in FY2003. Nevertheless, Kurnia still managed to outperform the industry average of 8.5%¹⁶. The lower growth was mainly attributed to the intense competition in the industry and the slowdown in motor vehicles sales during the year which adversely affected the whole industry, and to a lesser extent, the decline in the inward reinsurance business following the termination of Malaysian National Reinsurance Bhd's (MNRB) retrocession agreement with effect from 1 January 2003. There was also a corresponding reduction of 9.0% in voluntary cessions to MNRB amounting to RM5.6 million which partly contributed to the 9.5% improvement in net premium income during the year. In FY2005, voluntary cessions to MNRB will be further reduced to between 4.0% and 5.0% of gross premiums for all business classes. This is in line with BNM's recommendation under the Financial Sector Master Plan (FSMP) to enable direct insurers to increase their own retained income.



(Source: Bank Negara Malaysia Insurance Annual Report 2003)

Kurnia provides a full range of general insurance products including, but not limited to motor, personal accident (PA), medical, fire, and marine, aviation and transit (MAT). Nevertheless, the Company has successfully carved a niche in the motor business, and has been able to build a business that is sizeable enough for the Company to operate effectively and efficiently as a specialist motor insurer, despite lacking a ready client base, an advantage of being associated with a bank or corporate group. In 2002/2003, Kurnia maintained its leadership position in the local motor insurance segment, for the eighth year running, with 22.6% share of the market's total net premiums compared to 22.3% previously.

¹⁴ BNM Insurance Annual Report 2003.

¹⁵ BNM Insurance Annual Report 2003.

¹⁶ Gross direct and reinsurance accepted premiums less reinsurances within Malaysia: BNM Insurance Annual Report 2003.

Uni.Asia General Insurance Berhad (formerly known as SEA Insurance Berhad) trailed in second placing, with 6.6% market share (2001/2002: 7.0%).¹⁷

From July 2002, Kurnia began the reorganization of its operational structure which involved the decentralization of its business to state level. Each state has a State Management Office, with its own marketing, underwriting and claims functions, which ultimately reports to their respective regional heads in East and Peninsula Malaysia.

Motor In FY2003, motor insurance continued to be the main contributor (93.7%) to the Company's total net premiums, albeit a slight decline from 94.5% previously which is in line with its diversification efforts. The RM871.6 million motor gross premiums were contributed by private cars (77.0%), commercial vehicles (15.5%) and motorcycles (7.5%). In terms of policy mix, Kurnia derived 82.3% (FY2002: 82.2%) of its motor gross premium from non-mandatory motor covers. Despite the slowdown in motor vehicle sales during the year caused by the postponement of consumer purchases in anticipation of lower prices and better choices with the implementation of AFTA, the expansion of Kurnia's motor business by 7.1% (FY2002: +25.4%), surpassed the industry growth of 5.1%.

According to the Malaysian Automotive Association (MAA), new car sales fell 6.9% to 405,010 vehicles in 2003, the first decline in the past five years. However, sales are expected to rebound in 2004 following the announcement of the new tariff structure on 31 December 2003 whereby the import duty on completely-knocked-down motor vehicles from ASEAN countries would be reduced to a flat 25.0% from 42.0%-80.0% with effect from 1 January 2004. At the same time, the excise duty on such vehicles would be raised to between 60.0% and 100.0%. With the announcement removing any uncertainties regarding vehicle prices, as well as strong economic growth forecast and cheap hire purchase terms, MAA expects a 5.0% growth in new vehicle sales in 2004. This will inevitably boost Kurnia's business volume, going forward.

The sustained growth in Kurnia's motor business is attributable to its continuous marketing efforts, strong relationships with its agents and other business associates, the success of its customer loyalty programs and provision of value-added services such as Kurnia Auto Assist (KAA), as well as effective claims management. KAA is a free 24-hour breakdown assistance service launched in October 2000 for Kurnia's comprehensive private car insurance policyholders and third party policyholders with driver and passenger personal accident (DPPA) policy. The customer satisfaction and loyalty that KAA manages to instill, through the offering of various discounts and rebates from participating merchants, makes it a powerful marketing tool for Kurnia. In FY2003, the motor repairers scheme, a loyalty program for panel workshops, was also introduced. The Theft Claims Operations unit established in November 2002 to handle theft claims and other suspected fraudulent claims was dissolved in early 2003 to make way for the Company's decentralization exercise, whereby each state has now set up its own theft investigations unit.

Over the next two years, Kurnia targets to capture 30.0% share (FY2003: 23.5%) of the local motor insurance market. To achieve this goal, Kurnia will continue to intensify its marketing efforts and enlarge its marketing force, as well as attract new customers and retain existing ones through the provision of more innovative products and value-added services such as KAA and Kurnia Express (KE). KE is an immediate claims settlement service launched in December 2003, the first of its kind in the local motor insurance industry. KE offers cash settlement for Motor Own Damage Claims not exceeding RM3,000 within a one-hour period at any of Kurnia's service centers throughout Malaysia. Claimants are subsequently allowed to send their vehicles for repair at their preferred workshop. Other 'Own Damage' claims will continue to be settled within 14 days. KE is aimed at providing a fast and convenient service to customers, as well as helping to contain claims and boost sales through improved customer's confidence. With the KAA and KE schemes in place, Kurnia managed to raise its motor renewal rate to 69.0% in FY2003 (FY2002: 68.0%).

¹⁷ BNM Insurance Annual Report 2003.

Personal Accident (PA) PA, written mainly through agents, is a popular cross-selling product marketed to the Company's motor policyholders. In FY2003, the PA business remained as Kurnia's second largest insurance segment. Although its net premium income increased by 5.5% to RM15.3 million in FY2003 (FY2002: RM14.5 million), the PA segment's contribution towards the Company's total net premium income remained unchanged at a mere 1.8%.

Fire The premium split between commercial and residential buildings is approximately 86:14, with the concentration on commercial buildings being driven by its higher premium value. The fire segment's net premium income registered a marginal increase from RM10.0 million in FY2002 to RM10.7 million in FY2003. Consequently, its contribution to the Company's total net premium has reduced from 1.7% in FY2000 to 1.2% in FY2003. Even though underwriting profits dropped from RM7.0 million in FY2002 to RM4.3 million in FY2003, fire remained the third most profitable line of business, contributing 1.6% (FY2002: 3.3%) to the Company's total underwriting profits.

Marine, aviation and transit (MAT) Despite a slight increase compared to the previous year, the contribution of the MAT segment to the Company's total net premium remained insignificant at 0.7% in FY2003 (FY2002: 0.4%), with the bulk of the business being derived from cargo insurance.

Distribution Channels

Kurnia is principally a direct underwriter, with inward reinsurance contributing a mere 3.1% towards the Company's gross premium income in FY2003 (FY2002: 2.8%). As such, the Company relies heavily on its agents to source businesses. As at 30 June 2003, Kurnia's agency force grew by 9.4% to 7,287, contributing 91.3% of the Company's total gross premium income in FY2003. Although brokers generated less than 1.0% of total gross premium income, their contributions have increased more than seven-fold to RM5.1 million in FY2003 (FY2002: RM0.7 million). Recognizing the importance of its agency force, Kurnia has embarked on various efforts to empower its agents to stay ahead and compete effectively. Examples are the provision of training on both motor and non-motor products, as well as the roll-out of the web-based Electronic Agency Management System (e-AMS) that allows agents to download up-to-date customer data, submit policy applications directly to Kurnia and conduct other types of transactions through the internet.

As a means of improving its distribution network, Kurnia entered into a bancassurance arrangement with Hong Leong Finance Berhad (HLFB) in July 2001 to cross sell the Company's motor insurance to HLFB's auto loan customers. In the same year, Kurnia also became one of the only two general insurers to establish a joint-venture with Pos Malaysia to facilitate marketing of its products and services nationwide, albeit predominantly in motor insurance. In addition to these arrangements, Kurnia has also established reciprocal business relationships with eight financial institutions that channel their customers' insurance requirements to Kurnia.

OPERATING/UNDERWRITING PERFORMANCE

Statistics	----- FYE 30 June -----				
	2003	2002	2001	2000	1999
Underwriting profit (RM'000)	103,587	74,205	66,812	47,218	68,899
Profit before tax (RM'000)	164,764	152,477	86,385	88,261	168,292
Pre-tax profit/Average assets (%)	11.2	11.6	7.8	8.7	17.9
Claims ratio (%)	57.4	58.7	57.2	56.9	54.7
Expense ratio (%)	27.4	27.7	28.7	30.5	26.8
Combined ratio (%)	84.8	86.4	85.9	87.4	81.5
Operating ratio (%)	79.5	80.4	79.8	80.8	69.2
Portfolio performance					
Net investment income (RM'000)	43,842	44,002	39,375	31,285	50,440
Yield on invested assets (%) *	4.2	4.6	4.7	4.1	6.9
Total investment return (%)	6.4	7.9	2.8	5.3	13.3
<i>Portfolio composition (%)</i>					
Cash and deposits	52.4	44.1	32.3	38.0	74.5
Government securities	20.2	22.1	27.4	23.3	23.9
Private debt securities (PDS)	11.4	11.6	16.4	14.3	0.0
Shares	11.0	14.8	17.0	21.4	0.0
Loans	3.0	5.2	6.1	1.7	1.1
Others	2.1	2.2	0.8	1.2	0.5

* Excludes profit/(loss) on disposal of investments

Kurnia's overall underwriting results improved significantly by 39.6% to RM103.6 million (FY2002: +11.1%) despite the increase in net claims incurred, net commissions and management expenses. Kurnia attributes the strong underwriting profitability it has achieved in the past years to its sizeable motor portfolio, coupled with tight underwriting and effective claims controls.

In FY2003, net claims incurred rose by 12.0% to RM480.3 million (FY2002: RM428.8 million), whereas net commissions increased by 8.1% to RM93.4 million (FY2002: RM86.5 million) in line with the growth in gross premiums and the enlarged agency force. Management expenses also increased by 12.9% to RM159.5 million (FY2002: RM141.2 million) attributable mainly to the increase in allowance for doubtful debts and bad debts written off to RM16.4 million (FY2002: RM9.1 million) which is under control as it represents only 1.7% of gross premium income; as well as the larger advertising and promotional expenses amounting to RM14.9 million (FY2002: RM10.7 million). Nevertheless, the overall growth in management expenses has been on a decreasing trend since FY2000, resulting from the implementation of strict cost control measures such as the procurement tendering system, and the cost conscious mindset fostered among employees. These are reflected in the marginally lower expense ratio of 27.4% in FY2003 (FY2002: 27.7%), outperforming the industry average of 31.4%¹⁸. Going forward, marketing expenses are expected to rise due to the intensified efforts to promote non-motor products and the newly launched claims settlement service, Kurnia Express.

Kurnia's overall claims ratio improve to 57.4% during the year (FY2002: 58.7%) since the increase in earned premium income has more than offset the increase in net claims incurred. The Company's claims control practices include active investigation of theft, property damage and bodily injury claims, annual review of panel workshops to weed out recalcitrant operators and stringent control on panel lawyers and adjusters. With the rapid expansion in business volumes, the Company has also increased the number of claims personnel and in-house surveyors to ensure that claims management remain under control. Underwriting policies and guidelines were also further tightened in respect of certain high risk exposures, such as those involving chemical tankers, flammable liquid, robbery and hijacking, whereby the acceptance authority is limited to general manager level only.

Despite strong underwriting results in FY2003, the growth in pretax profits reduced significantly (+ 8.1%), compared to FY2002 (+ 76.5%). This was attributable to the provision for diminution in value of investments, as well as the reduction in net investment income and profit on sale of investments during the year. The weaker investment performance was attributable to the unfavourable stock market conditions as indicated by the deterioration in the Kuala Lumpur Composite Index (KLCI) as well as the low interest rate environment prevalent in FY2003.

¹⁸ BNM Insurance Annual Report 2003.

Motor The slowdown in the motor business in FY2003 to 7.1% (FY2002: +25.4%) translated to a lower growth in net claims incurred and commissions, thus resulting in a 23.8% improvement (FY2002: +12.4%) in the underwriting results to RM241.2 million. Nevertheless, the overall motor claims ratio dropped to 58.5% in FY2003 (FY2002: 60.3%), well below the industry average of 69.7%¹⁹. Kurnia also managed to outperform the industry in respect of the Motor 'Act'²⁰ business by registering a lower claims ratio of 121.4% in FY2003 (FY2002: 99.2%), compared to the industry average of 161.7% (2002: 141.5%)²¹, the highest level registered in the past five years. This indicates that the performance of the Company's motor segment is well within expectations and the control of management.

Peer Comparison – Selected Indicators

Motor Business	Kurnia 30.6.03	Uni.Asia 31.3.03*	MAA 31.12.02	P&O 30.9.03
Net Premiums (RM mil)				
2002/2003	809,659	235,984	211,306	168,504
2001/2002	746,212	233,000	160,115	175,396
Claims ratio (%)				
2002/2003	58.5	51.8	71.4	87.7
2001/2002	60.3	68.7	59.5	97.4
Underwriting Margin (%)²²				
2002/2003	30.7	38.8	18.7	2.9
2001/2002	28.4	20.8	30.9	(7.1)

* Results for the 15 months ended 31.03.03.

Note: Uni.Asia General (formerly known as SEA), MAA and P&O are the three largest motor insurers in Malaysia, after Kurnia.

Peer Comparison Kurnia maintained its lead in the local motor insurance sector in 2002/2003, with the highest net premium income of RM809.7 million. Uni.Asia General Insurance Bhd (formerly known as SEA Insurance Bhd) secured a distant second placing with RM236.0 million net premiums, incorporating the financial results of Overseas Union Insurance (Malaysia) Bhd's general insurance business following the acquisition of the latter in November 2002.

PA Although the underwriting results of Kurnia's PA segment continued to deteriorate by 6.8% in FY2003 to RM7.0 million (FY2002: -36.5%), it remained a relatively profitable business. The increase in net claims incurred coupled with a reduction in net earned premium also led to a higher claims ratio of 29.4% (FY2002: 25.2%).

Fire Despite the 17.5% growth in gross premiums in FY2003, underwriting profits of the fire segment decreased by 38.6% to RM4.3 million owing to greater loss experience of 48.4% (FY2002: 22.6%) and lower retention of premiums.

MAT In tandem with the 88.8% increase in net premiums to RM5.7 million in FY2003 (FY2002: RM3.0 million), net claims incurred grew by 83.2% to RM2.3 million (FY2002: RM1.3 million). Nevertheless, the claims ratio improved slightly from 49.6% in FY2002 to 46.5% in FY2003, as the increase in net earned premium more than offset the increase in net claims incurred.

INVESTMENTS

Kurnia's investment policy follows the guidelines set by Bank Negara Malaysia (BNM), with an emphasis on capital preservation. Its equity portfolio is held with a view of gaining long-term returns and is selected based on strategic considerations including potential business referrals. The private debt securities (PDS) investments are required to have a minimum rating of BBB. However, there are no policy restrictions on industry concentration. Nevertheless, all the PDS presently held in the RM119.4 million portfolio have a minimum rating of A, with the bulk of it (66.1%) carrying AA rating. In terms of industry segregation, RM49.1 million or 41.1% were invested in the power industry, followed by 25.5% in infrastructure, and 12.8% in consumer products and trading. In terms of maturity profile, 81.9% of the

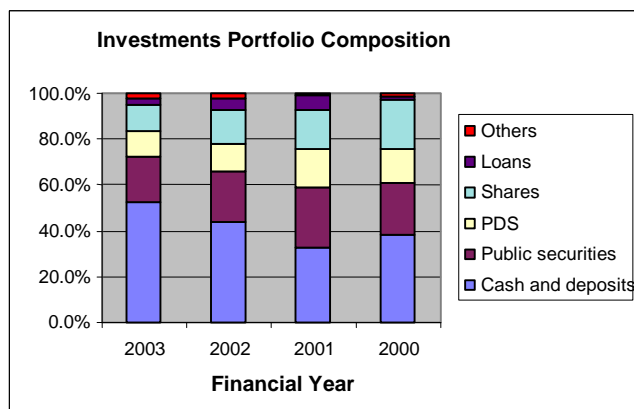
¹⁹ BNM Insurance Annual Report 2003.

²⁰ Compulsory insurance cover required under the Road Transport Act 1987.

²¹ BNM Insurance Annual Report 2003.

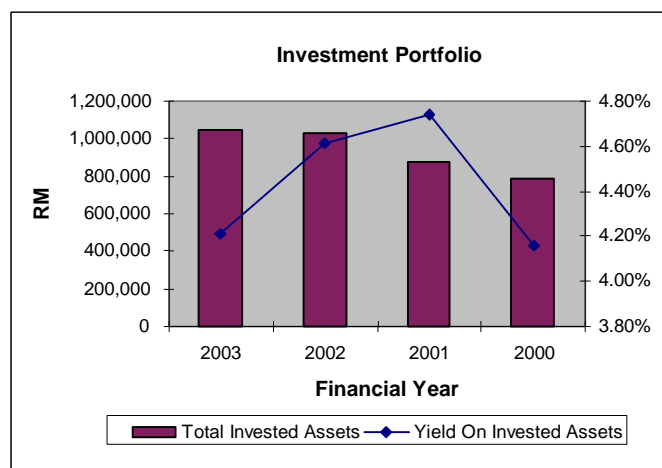
²² Underwriting margin is computed before management expenses as follows:
Underwriting profit (before management expenses)
 Earned Premium Income

PDS held have maturities of between one to five years. As at 30 June 2003, all equities were held in main board counters.



Kurnia's management adopted a relatively conservative investment strategy during the year, in view of the weak equity and bond markets, as well as the prevailing low interest rate environment. Despite the reduction in the minimum required investment in low risk assets from 20.0% to 10.0% of an insurer's margin of solvency as stipulated by BNM's revised guidelines in January 2002, Kurnia's composition of liquid assets (cash and deposits plus government securities) increased to 72.6% in FY2003 (FY2002: 66.2%), whilst its investments in equity and PDS correspondingly declined, accounting for 11.0% and 11.4% of total investments respectively. In absolute terms, equity investments fell by 24.3% (FY2002: +1.9%) to RM 115.2 million whilst PDS investments declined slightly by 0.4% (FY2002: -16.7%) to RM119.4 million. The composition of equity and PDS investments reflects management's preference to maintain its low risk portfolio to generate long term yields rather than short term gains. However, with the improvement in the stock market in the second half of 2003 and first quarter of 2004, the composition of equity investments is likely to increase in FY2004.

Investment yield



The unfavourable stock market conditions during FY2003 prompted the Company to reduce its investment in equities, resulting in a lower investment leverage of 32.0% (FY2002: 45.7%). This in turn contributed to the reduction in total investment return from 7.9% in FY2002 to 6.4% in FY2003. However, excluding realized capital gains and losses, the investment yield declined marginally to 4.2% (FY2002: 4.6%). Going forward, investment performance is expected to improve, given the bullish stock market sentiment in the second half of 2003 and first quarter of 2004.

LIQUIDITY AND CASH FLOW

Statistics	----- FYE 30 June -----				
	2003	2002	2001	2000	1999
Underwriting cash flow ratio (%)	128.9	131.1	122.2	136.5	133.9
Total cash flow ratio (%)	123.0	133.3	116.4	100.6	122.9
Liquid assets/Technical reserves (x)	0.76	0.73	0.63	0.70	1.22
Liquid assets/Liabilities (x)	0.70	0.66	0.56	0.60	0.86

Kurnia's total cash flow position remained strong, despite a slight reduction to 123.0% in FY2003 (FY2002: 133.3%) due to higher claims payments, commissions and management expenses which more than offset the growth in net premium income. The level of liquid assets increased by another 11.7% to RM763.0 million in FY2003 (FY2002: RM682.9 million), contributing to the improvement in liquid assets coverage of technical reserves and liabilities to 0.76x and 0.70x respectively. This indicates that the Company is able to withstand heavy cash calls without facing major liquidity problems.

In line with the 8.9% growth in gross premium income, trade receivables increased marginally by 2.0% to RM42.2 million in FY2003 (FY2002: RM41.4 million), owing mainly to the 4.9% increase in net outstanding premiums and agents' balances to RM39.0 million (FY2002: RM37.2 million). The net amount due from reinsurers and ceding companies, however, declined by 23.6% to RM3.2 million (FY2002: RM4.2 million).

CAPITALIZATION AND RESERVES

Statistics	----- FYE 30 June -----				
	2003	2002	2001	2000	1999
Shareholders' funds (RM'000)	429,111	381,850	277,352	212,507	183,246
Operating leverage (x)	2.0	2.1	2.3	2.5	2.4
Investment leverage (%)	32.0	45.7	56.5	83.6	2.2
Loss reserves/Shareholders' funds (x)	1.5	1.6	2.0	2.2	2.2
Technical reserves (RM'000)	1,008,683	937,361	826,035	689,713	585,408
Technical reserves/Net premiums (%)	116.7	118.7	127.0	132.0	134.7
Claims reserves (RM'000)	647,826	603,844	551,206	460,242	397,998
Claims reserves/Net premiums (%)	75.0	76.5	84.8	88.1	91.6

Kurnia's share capital remained at RM200.0 million as at 30 June 2003, double the revised minimum paid-up capital requirement of RM100.0 million. Total shareholders' funds rose by another 12.4% in FY2003 to RM429.1 million due to higher profits registered during the year amounting to RM117.3 million (FY2002: RM104.5 million). This has contributed to the improvement in the Company's operating and investment leverages to 2.0x and 32.0% respectively.

The Company was also in compliance with the solvency requirements, with a surplus of admitted assets over the margin of solvency of RM128.0 million (FY2002: RM91.5 million).

Kurnia's technical and claims reserves continued to improve to RM1.0 billion and RM647.8 million respectively. However, technical and claims reserves over net premiums were slightly lower than previous year at 116.7% and 75.0% respectively, as a result of faster claims settlement during the year.

The Company does not have a formal dividend policy. Nevertheless, dividends of RM70.0 million have been paid in respect of FY2003.

REINSURANCE

In line with Kurnia's business expansion plans, the Company has historically utilized minimal reinsurance in order to manage its underwriting exposure. Yet the predominantly treaty-based reinsurance arrangement bodes well for the Company in ensuring a readily available reinsurance source.

The Company's reinsurance usage reduced to 9.5% in FY2003 (FY2002: 9.9%) due to the reduction in voluntary cessions to Malaysian National Reinsurance Berhad (MNRB) to 5.0% of gross premiums for all business classes effective 1 January 2003, compared to the 7.5% to 15.0% range previously. The voluntary cessions of the motor and PA classes will be further reduced to 4.0% effective 1 January 2005. In FY2003, the retention levels per risk were revised to RM0.4 million for motor and MAT classes, and to RM0.5 million for contractor's all risk and engineering, and fire classes.

In FY2003, claims reinsurance recoverables increased to RM54.9 million (FY2002: RM52.9 million), representing 12.8% of shareholders' funds. The credit risk of reinsurers is well mitigated as Kurnia maintains five different reinsurers, with Munich Re being Kurnia's largest treaty reinsurer, having taken over Swiss Re's role as treaty leader in FY2003. The reinsurers are selected based on their financial strength, competitiveness of rates and ability to provide technical support, with consideration given to continuity. Kurnia's minimum required rating for reinsurers is BBB, in line with BNM's guidelines. Notwithstanding this, the Company has historically maintained foreign reinsurers with a minimum rating of A-.

	Rating	Rating Agency
Munich Re	AA-	Standard & Poor's
Labuan Re	B++	A.M. Best
MNRB	BBB	Standard & Poor's
China International Re	A-	Standard & Poor's
Partner Re	AA	Standard & Poor's

As at 30 June 2003, 83.9% of all outstanding premiums and claims receivable from reinsurers were at least six months old, with the bulk of it coming from facultative reinsurance placements. Slow recoveries were mainly caused by complex claims which have more stringent documentary requirements. Going forward, recoveries are expected to be better controlled as a centralized unit has been set up to oversee all claims recoveries from reinsurers.

MANAGEMENT AND CORPORATE STRATEGY

Management Kurnia's executive committee (EXCO) and senior management team are made up of highly experienced individuals, most of whom have at least ten years experience in the insurance industry. Kurnia has indeed benefited over the years from aggressive marketing strategies, prudent claims management and overall hands-on approach in daily operations. These factors have led Kurnia to become the industry leader it is today.

The Company has also endeavoured to improve its succession planning with the launch of 'Kurnia Corporate Culture and Mentoring programme' in June 2003 which enables it to identify and groom potential future leaders.

Strategy Kurnia Damai, the present holding company, plans to expand further into the Association of South East Asian Nations (ASEAN) region, namely Indonesia and Vietnam, over the next two to three years, either through the purchase of divested businesses or tie-ups with strong foreign insurers. The Group made its maiden entry into the region earlier in FY2000 via the acquisition of Asia Dynamic Insurance Co. Ltd in Thailand, presently known as Kurnia Insurans (Thailand) Co Ltd.

Despite falling slightly short of the RM1.0 billion premium target for FY2003, Kurnia is confident that it will be able to achieve a 10.0% growth in gross premium income to surpass the RM1.0 billion mark in FY2004. If successful, Kurnia will be the first general insurer in the ASEAN region to breach the RM1.0 billion mark, making it an unprecedented achievement in the region. To help realize the challenging goal, the Intensive Marketing Management (IMM) project was implemented to improve the efficiency and

productivity of the state and branch offices, promote better communication between the various offices and personnel within Kurnia, enhance relationships with agents and service providers, as well as achieve new benchmarks in service standards. A Senior Management Committee was also established to oversee the Company's operations and implement policies set by the EXCO. Besides these new initiatives, Kurnia is also banking on the 68.0% - 70.0% renewal rate expected in FY2004 (FY2002: 66.0%), higher sales contributions from insurance brokers, as well as the upcoming initial public offering (IPO). The Company will also continue to strengthen its marketing efforts, and introduce innovative products and services such as the newly launched claims settlement service, Kurnia Express.

While maintaining its leadership in the motor insurance market, Kurnia is moving actively into non-motor sectors, especially PA, fire and medical insurance, in line with its proposed motor: non motor portfolio mix of 70:30. In achieving this objective, Kurnia has a clear advantage as it is able to tap its large policyholder base. The Company will also be recruiting marketing and underwriting personnel experienced in handling non-motor businesses, as well as intensifying its marketing activities. Non-motor promotion campaigns and roadshows launched in March 2003 nationwide have contributed to the significant increase of 32.9% in non motor gross premium income to RM79.9 million in FY2003.

Kurnia is working towards being listed on the main board of Bursa Malaysia Berhad (formerly known as Kuala Lumpur Stock Exchange Berhad) by early fourth quarter of 2004, and is currently waiting for approvals from the relevant authorities. The listing will enable the company to tap into the capital market besides enhancing the brand image and customer acceptance of the Company, as well as maintaining the loyalty of its staff and agency force through the ownership of shares in the Company.

Operations The rapid expansion in Kurnia's customer base from 0.5 million policies issued in 1993 to the current 3.0 million is partly attributable to the quality of the service provided to the Company's customers and business associates. Kurnia embraced the International Standardization Organization (ISO) requirements when the Quality Assurance (QA) department was set up in early 1995. In the following year, the Company received the ISO 9002:1994 certification from SIRIM. In 2001, Kurnia upgraded its entire quality system and documentation in line with the new ISO requirements which emphasized the enhancement of customer satisfaction. In 2002, the certification was upgraded to ISO 9001:2000 and was renewed in 2003. Kurnia's commitment to improving quality, efficiency and effectiveness of its operations is evidenced by its fully documented and up-to-date operational procedures, total quality inspections and audits, as well as the tracking of customer feedbacks and complaints. To date, more than 170 management and executive staff have been trained as internal quality auditors to carry out regular audits to ensure total quality system adherence. To ascertain that continuous process improvement and quest for quality become the Company's culture, all departments are required to set their departmental objectives and have them measured and analyzed regularly, and promptly followed up by corrective and preventive actions. The QA department has also introduced Customer Satisfaction Survey at sales and claims counters. The ISO standards and quality culture provide the Company with a mechanism to monitor and cultivate market-driven and customer service attitudes at all levels, which in turn have helped Kurnia maintain its competitive edge in the industry.

From July 2002, Kurnia began the reorganization of its operational structure which involved the decentralization of its business to state level. Each state has a State Management Office, with its own marketing, underwriting and claims functions, which ultimately reports to their respective regional heads in East and West Malaysia. A principal office has also been set up in Kota Kinabalu to instill effective strategic management in East Malaysia and to further widen its customer reach and servicing capabilities. The management believes that the decentralization exercise would enhance the effectiveness of all facets of its business by bringing the Company closer to the market and by expediting the decision-making process, which will translate into improved profitability in the long run.

With regard to the decentralization of its Claims Department, Kurnia has decentralized its loss surveyors to enable them to conduct '24 Hours Accident Survey'. The survey is conducted at the scene of the accident upon receiving notification calls from customers at Kurnia's 24-Hour Call Center. This scheme was introduced to speed up claims processing as well as to improve the standard of service.

Kurnia had invested RM11.3 million and RM7.8 million in information technology (IT) in FY2002 and FY2003 respectively. In response to the Road Transport Department (RTD) directive to implement electronic motor cover notes (e-cover notes) effective from the proposed date of 1 January 2004, Kurnia has also embarked on extensive efforts and investment to ensure business continuity by deploying various ICT applications and channels for issuing e-cover notes.

An ICT laboratory was also opened in 2003 to provide its employees with access to new advance technology equipment and to upgrade their IT skills. It will also be used as a center for Research and Development for the Company to continuously develop and introduce innovative products and services to meet the evolving demands of customers. Kurnia's budgeted ICT investments for FY2004 and FY2005 are RM16.1 million and RM10.0 million respectively. In line with its plans towards a paperless environment, part of the FY2004 budget will be used to migrate the existing systems to a web-based insurance application system which enables all transactions to be carried out via the internet. In addition, funds will also be used to upgrade network infrastructure and security to cater for the e-business expansion and web-based environment; as well as to upgrade existing personal computers (PCs). The new application system which is expected to be fully operational by July 2005, will allow transactions to be carried out in and out of the office, thus improving staff efficiency and productivity. In early 2004, part of the RM16.1 million budget was used to provide wireless LAN (Local Area Network) enabled notebooks that are equipped with Kurnia's own proprietary, customized e-MMS (electronic marketing management system) software to the Company's frontline marketing staff. This will enable the marketing staff to access the Company's central database containing various information and policyholders' details while on the move, enabling them to provide prompt and efficient services to agents and customers nationwide. The expected increase in productivity, lower IT support costs and longer platform stability will help Kurnia to improve customer satisfaction and ultimately maintain its leadership position.

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KURNIA INSURANS (MALAYSIA) BERHAD

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Website: www.kurnia.com.my

BOARD OF DIRECTORS	Chairman	:	Datuk Kua Sian Kooi
	Deputy Chairman	:	Haji Abdul Samad b. Haji Salleh
	Managing Director/CEO	:	Dato' Adrian Loh Heong Chow
	Directors	:	Ali Riza bin Haji Abdul Samad Mr. Yuen Choong Lai

MAJOR SHAREHOLDER	Kurnia Damai Sdn Bhd	:	100.0 %
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KURNIA INSURANS (MALAYSIA) BERHAD PROFIT AND LOSS ACCOUNT

	RM'000				(Growth %)		
	2003	2002	2001	2000	2003	2002	2001
<i>Financial Year Ending: June 30</i>							
GENERAL INSURANCE REVENUE ACCOUNT							
Gross Premiums - direct business	921,712	849,203	694,301	548,391	8.5	22.3	26.6
- reinsurances accepted	29,785	24,534	10,108	22,484	21.4	142.7	(55.0)
	951,497	873,737	704,409	570,875	8.9	24.0	23.4
Less: Reinsurance	87,302	84,330	54,155	48,375	3.5	55.7	11.9
Net Premiums Written	864,195	789,407	650,254	522,500	9.5	21.4	24.5
Add: Dec/(Inc) in reserve for unexpired risks	(27,340)	(58,688)	(41,972)	(42,061)	(53.4)	39.8	(0.2)
Earned Premium Income	836,855	730,719	608,282	480,439	14.5	20.1	26.6
Gross claims paid less salvage	480,387	418,479	361,116	258,023	14.8	15.9	40.0
Less: Reinsurance recoveries	44,051	42,317	30,482	25,184	4.1	38.8	21.0
Net claims paid	436,336	376,162	330,634	232,839	16.0	13.8	42.0
Add: Inc in provision for claims	43,982	52,638	17,302	40,498	(16.4)	204.2	(57.3)
Net Claims Incurred	480,318	428,800	347,936	273,337	12.0	23.2	27.3
Less: Net Commissions	93,434	86,467	73,783	60,742	8.1	17.2	21.5
Less: Management Expenses	159,516	141,247	119,751	99,142	12.9	18.0	20.8
	252,950	227,714	193,534	159,884	11.1	17.7	21.0
Underwriting result	103,587	74,205	66,812	47,218	39.6	11.1	41.5
Investment Income	43,842	44,002	39,375	31,285	(0.4)	11.8	25.9
Other Income/(Expenditure)	17,335	34,270	(19,802)	9,758	(49.4)	(273.1)	(302.9)
Net Other Income/(Expenditure)	61,177	78,272	19,573	41,043	(21.8)	299.9	(52.3)
PROFIT BEFORE TAX	164,764	152,477	86,385	88,261	8.1	76.5	(2.1)
Taxation	47,503	47,979	21,540	29,000	(1.0)	122.7	(25.7)
PROFIT AFTER TAX	117,261	104,498	64,845	59,261	12.2	61.2	9.4
RETAINED PROFITS/(LOSS) B/F	181,850	77,352	62,507	83,246	135.1	23.7	(24.9)
Capitalisation for bonus issue	0	0	50,000	50,000	n.m.	(100.0)	0.0
Dividends	70,000	0	0	30,000	n.m.	n.m.	(100.0)
RETAINED PROFIT/(LOSS) C/F	229,111	181,850	77,352	62,507	26.0	135.1	23.7

BALANCE SHEET

Financial Year Ending : June 30

	RM'000				(Growth %)		
	2003	2002	2001	2000	2003	2002	2001
Cash and Deposits							
Cash and bank balances	19,025	28,991	35,138	17,547	(34.4)	(17.5)	100.3
Fixed deposits / money market	531,195	426,067	248,358	280,622	24.7	71.6	(11.5)
Investments							
Malaysian Government papers	54,258	65,626	79,773	70,701	(17.3)	(17.7)	12.8
Cagamas Papers	30,011	37,035	37,826	37,859	(19.0)	(2.1)	(0.1)
Debentures, Bonds, Loan Stocks	263,171	285,886	310,440	191,227	(7.9)	(7.9)	62.3
Equity and property unit trust	14,461	14,711	7,158	9,534	(1.7)	105.5	(24.9)
Shares	115,206	152,194	149,404	168,009	(24.3)	1.9	(11.1)
Other Investments	7,500	7,500	0	0	0.0	n.m	n.m.
Loans & Mortgages	15,923	12,863	9,347	8,583	23.8	37.6	8.9
Other Assets							
Outstanding premiums and agents' balances	82,005	66,489	42,343	23,456	23.3	57.0	80.5
Amount due from reinsurers/ceding companies	19,160	18,334	15,476	5,906	4.5	18.5	162.0
(Provision for doubtful debts)	(58,926)	(43,430)	(35,821)	(14,410)	35.7	21.2	148.6
Other debtors, deposits and prepayments	150,995	72,745	36,274	29,089	107.6	100.5	24.7
Tax recoverable	6,042	0	0	0	n.m	n.m	n.m
Goodwill	31,104	32,507	40,169	0	(4.3)	(19.1)	n.m
Property and equipment	245,437	245,633	231,271	181,726	(0.1)	6.2	27.3
TOTAL ASSETS	1,526,567	1,423,151	1,207,156	1,009,849	7.3	17.9	19.5
LIABILITIES							
Provision for outstanding claims	702,708	656,706	610,056	490,769	7.0	7.6	24.3
(Recoverable from reinsurers)	(54,882)	(52,862)	(58,850)	(30,527)	3.8	(10.2)	92.8
Net Outstanding Claims	647,826	603,844	551,206	460,242	7.3	9.5	19.8
Amount due to agents/insureds	5,095	2,708	2,421	1,573	88.1	11.9	53.9
Amount due to reinsurer and ceding companies	14,010	24,207	40,861	10,797	(42.1)	(40.8)	278.4
Proposed dividend	0	0	0	30,000	n.m	n.m	(100.0)
Provision for taxation	16,942	34,252	17,562	26,418	(50.5)	95.0	(33.5)
Deferred taxation	7,121	4,459	3,302	3,302	59.7	35.0	0.0
Staff retirement benefits	6,836	5,520	4,428	4,622	23.8	24.7	(4.2)
Other creditors and accrued liabilities	38,769	32,794	35,195	30,917	18.2	(6.8)	13.8
Reserves for Unexpired Risks	360,857	333,517	274,829	229,471	8.2	21.4	19.8
Shareholders' Fund							
Share capital	200,000	200,000	200,000	150,000	0.0	0.0	33.3
Reserves	229,111	181,850	77,352	62,507	26.0	135.1	23.7
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	1,526,567	1,423,151	1,207,156	1,009,849	7.3	17.9	19.5

n.m - not meaningful

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

SECURE RANGE

- AAA** An institution rated AAA has an exceptionally strong capacity to meet its financial commitments and exhibits a high degree of resilience to adverse developments in the economy, and in business and other external conditions. These institutions typically possess a strong balance sheet and superior earnings record.
- AA** 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.
- A** 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.
- BBB** 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

- BB** 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** 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.
- C** 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.
- D** 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.

Notes: 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.

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