



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

KURNIA INSURANS (MALAYSIA) BERHAD

INSURANCE FINANCIAL STRENGTH RATING Annual Review – March 2006

Rating Action	Re-affirmed	A+
Rating History	January 2005 March 2004 May 2003 March 2002	A+ A+ A A
Rating	Insurance Financial Strength	
Sector	General Insurance	
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CREDIT ANALYSIS

INSURANCE FINANCIAL STRENGTH RATING/ GENERAL INSURANCE

Annual Review – March 2006

KURNIA INSURANS (MALAYSIA) BERHAD

Rationale

Kurnia Insurans (Malaysia) Berhad's (Kurnia) financial strength rating has been reaffirmed at A+ to reflect the Company's expanding share of the local general insurance market; its ability to maintain its leadership position in the motor insurance segment and the realization of its premium growth target. However, Kurnia's high business concentration on motor insurance continues to be a moderating factor given the segment's increasingly challenging operating environment.

Expanding local market share - In 2004/2005, Kurnia increased its market share to 14.50% (2003/2004: 13.9%) and 23.9% (2003/2004: 23.6%) of the industry's total net premiums and motor net premiums respectively, maintaining its position as the largest general and motor insurer in the country. This is in line with its goal of achieving a 30% share of the local general insurance market by 2010.

Improved business operations - Kurnia's overall underwriting profit increased substantially (by 415.3% to RM159.5) owing to increased earned premium income and a smaller increase in unearned premium reserve. The increase in earned premium income led to a marked improvement in overall claims ratio to 59.0% (FY2004: 68.0%). Total shareholders' funds increased considerably by 19.1% to RM491.4 million due to higher net profits during the year.

Realization of premium growth target – Kurnia was the first general insurer in the ASEAN region to surpass the RM1.0 billion gross premium mark. It has now outdone this previous feat by exceeding its RM1.16 billion target for FY2005 to RM 1.19 billion. Arising from this achievement, Kurnia's holding company Kurnia Asia Berhad (KAB), declared and paid an interim dividend of 36.1% in September 2005 which translated into a net dividend of 6.5 sen per share, exceeding its commitment (as stated in its prospectus) of 4.0 sen per share by 2.5 sen.

Challenging outlook – The near-term outlook remains challenging as the motor insurance business shows signs of softening with continuing inflationary pressure, rising interest rates and high fuel prices. Also a concern is the rising trend in the average claim size for compulsory motor insurance (motor 'Act') policies which cover third party death and bodily injury. Third party policies constitute 59.4% of Kurnia's motor policies. Kurnia's 1st half results for FY2006 reflects the tougher operating environment as evidenced by a 14.4% drop in net profit on the back of a 25.7% decrease in net investment and other income and a marginal decrease in gross premium income (-4.8%). On the upside, rising interest rates should have a positive effect on Kurnia's investment earnings given its high level of cash and deposits. Furthermore, the newly unveiled National Automotive Policy may provide the needed boost to vehicle sales should the overall reduction in effective tax rates for most vehicles translate into cheaper car prices.

Exhibit 1 : Financial Highlights

FYE 30 JUNE	2005	2004	2003	2002	2001
Gross premiums (RM'000)	1,187,062	1,056,291	951,497	873,737	704,409
Underwriting profit (RM'000)	159,467	30,948	103,587	74,205	66,812
Underwriting margin (%)	15.1	3.4	12.4	10.2	11.0
Claims ratio (%)	59.0	68.0	57.4	58.7	57.2
Total expense ratio (%)	25.0	26.6	29.3	28.8	29.8
Total investment return (%)	3.8	6.9	6.4	7.9	2.8
Liquid asset/Technical reserves (x)	95.6	76.6	75.6	72.9	63.4

BUSINESS DESCRIPTION

Introduction

Kurnia Insurans (M) Berhad (Kurnia) was incorporated in 1978 as Industrial & Commercial Insurance (M) Bhd. In 1991, Kurnia Damai Sdn Bhd (KDSB) acquired the entire share capital of the Company and subsequently changed its name to the present one. Kurnia is principally engaged in the underwriting of general insurance. As at 30 June 2005, its authorized and paid up capital stood at RM300.0 million and RM200.0 million, respectively.

In year 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's efforts to consolidate the insurance industry.

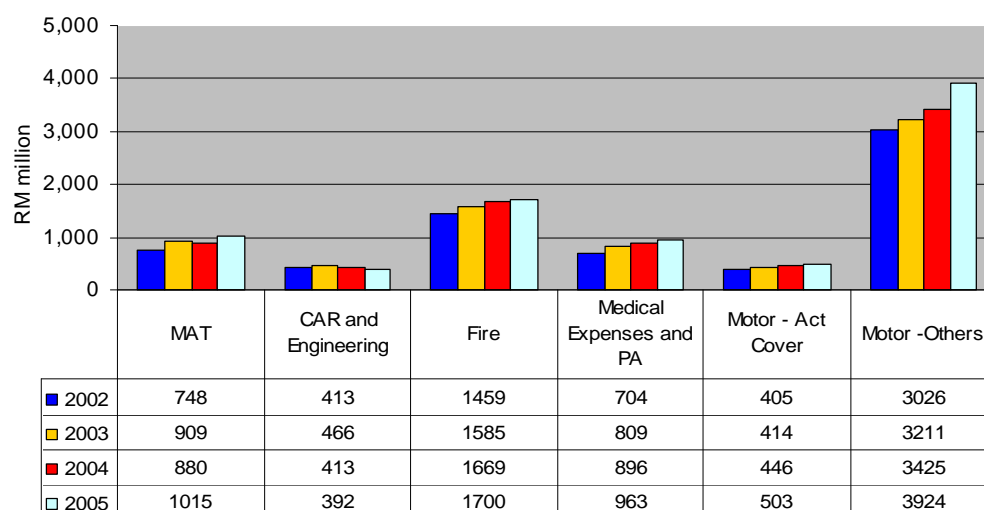
In August 2001, KDSB acquired Asia Dynamic Insurance Co. Ltd in Thailand, marking the group's initial foray into the region. The Company was subsequently renamed Kurnia Insurans (Thailand) Co Ltd to allow a common branding across the border.

In November 2004, Kurnia became a wholly-owned subsidiary of Kurnia Asia Berhad (KAB)¹ through an exchange of shares with KDSB as part of KAB's listing exercise. KAB was officially listed on the Main Board of Bursa Malaysia Securities Berhad² on 27 January 2005. Since 1 June 2005, KAB has been included in the indices of Morgan Stanley Capital International Inc. (MSCI) which would serve to increase its visibility to foreign investors. Effective 30 December 2005, KAB has been included as one of the component stocks of the KLCI (Kuala Lumpur Composite Index) as announced by Bursa Malaysia Berhad, validating the company's strength and the well capitalized and liquid nature of its stock.

INDUSTRY ANALYSIS³

Performance in 2005

Exhibit 2: Gross Direct Premiums by Business Lines (2002-2005)



Source: BNM Insurance Annual Report 2005

¹ KAB is an investment holding company incorporated in Malaysia in 2001.

² Formerly known as Malaysia Securities Exchange Berhad.

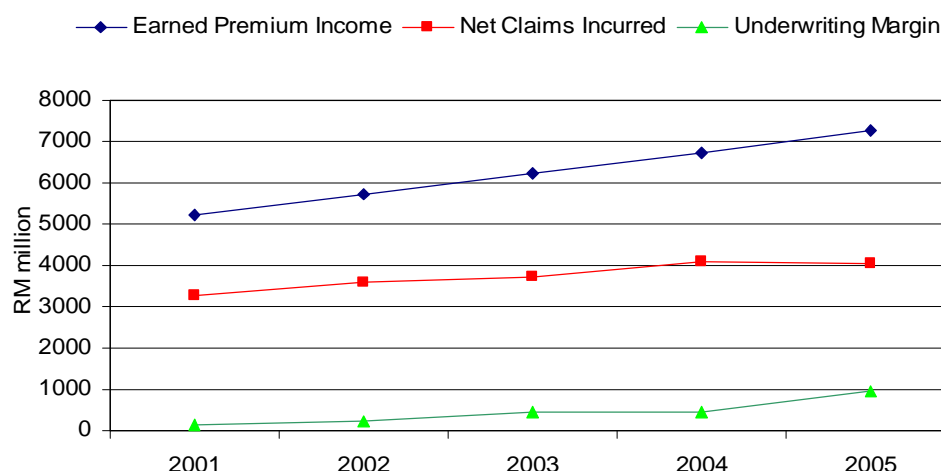
³ Facts and figures extracted from BNM Insurance Annual Report 2005

The general insurance sector experienced strong growth in 2005 after a sluggish year in 2004, with gross premiums growing at 9.7% to reach RM9.4 billion. Overall, higher premiums were recorded for all classes of business with the exception of the contractors' all risks (CAR) and engineering classes. The motor sector remains the main driver of growth, with the volume of motor insurance premiums increasing by 14.4%, its most significant growth since 2000 bolstered by a surge in motor vehicle sales during the year.

In contrast to 2004 performance, the marine, aviation and transit (MAT) sector experienced double-digit expansion with premiums growing by 15.3%, largely originating from the aviation and offshore oil-related sectors. Premium growth for the fire sector, the second largest class of general insurance business contracted for the third consecutive year to 1.9%. Although, competitive rates on large industrial fire risks dampened growth for this sector, sustained demand for residential property continued to support premium growth. Contractors' all risks (CAR) and engineering classes experienced a second year of contraction in gross direct premiums, this time by 5.0%, an improvement from the 11.4% contraction experienced in 2004. Growth remained positive for the other classes of business in 2005.

In 2005, robust premium growth and continued underwriting discipline were among the drivers of underwriting margin and underwriting profits. Total underwriting profits more than doubled to RM956.3 million representing 13.1% of earned premium income. A more favourable loss experience was achieved with the application of rigorous underwriting assessments and controls which in turn resulted in higher profits. The strengthening of the technical components of profitability continued with the underwriting account contributing 62.7% of operating profits.

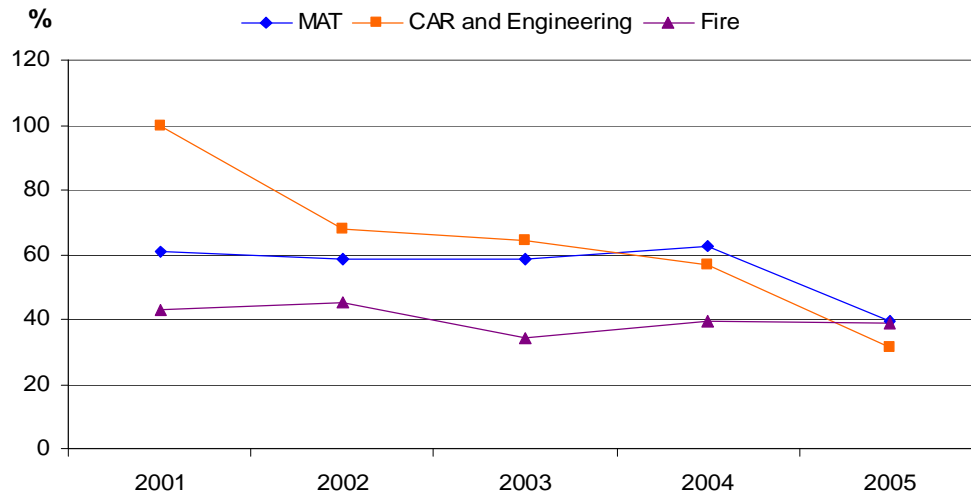
Exhibit 3: Industry Underwriting Performance (2001-2005)



Source: BNM Insurance Annual Report 2005

The net retention level of direct insurers rose for the second year to 88.8% in 2005 (2004: 87.6%) primarily supported by the increase in volume of the motor business which is less dependent on reinsurance support. The lack of large-scale construction projects during the year also boosted retention levels in the fire and CAR lines due to the lower risk exposure written by the industry. Overall claims experience as measured by the industry's ratio of net claims incurred to earned premium income improved significantly to 55.4% (2004: 60.9%) as the industry experienced its most favourable loss year in over a decade.

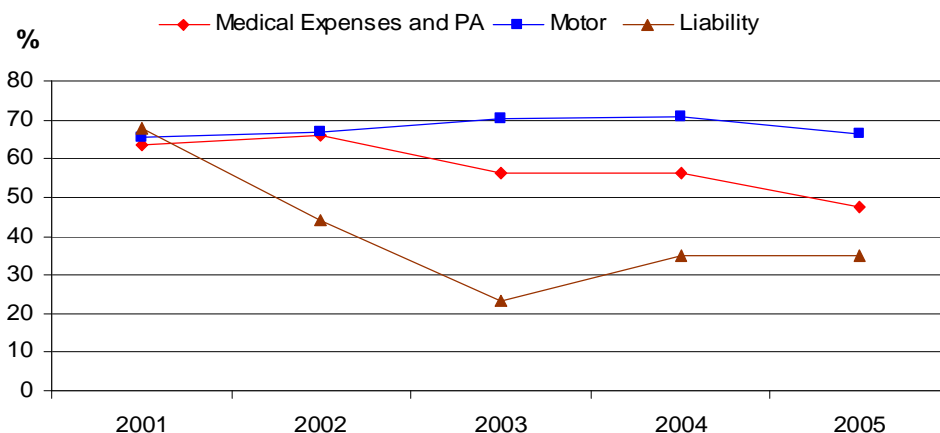
Exhibit 4: Claims Ratio (MAT, CAR and Fire)



Source: BNM Insurance Annual Report 2005

The general trend is going towards faster settlement of bodily injury claims with the courts' stricter stance on postponements leading to a preference for out-of-court settlements. The claims ratio for motor insurance improved for the first time since 2000 to 66.3% (2004: 70.7%), bolstered by the significant growth in premium base and lower loss reserves by a number of the major motor underwriters as a result of intensified efforts to contain claims costs. Losses arising from theft claims were also lower due to better security features with vehicle tracking capabilities installed by vehicle owners. Despite the improvement in claims experience, the fact remains that the current level of pricing for compulsory 'Act' covers is well below technically supportable levels and will need to be addressed going forward in view of increasing claims costs.

Exhibit 5: Claims Ratio (Medical Expenses & PA, Motor, Liability)

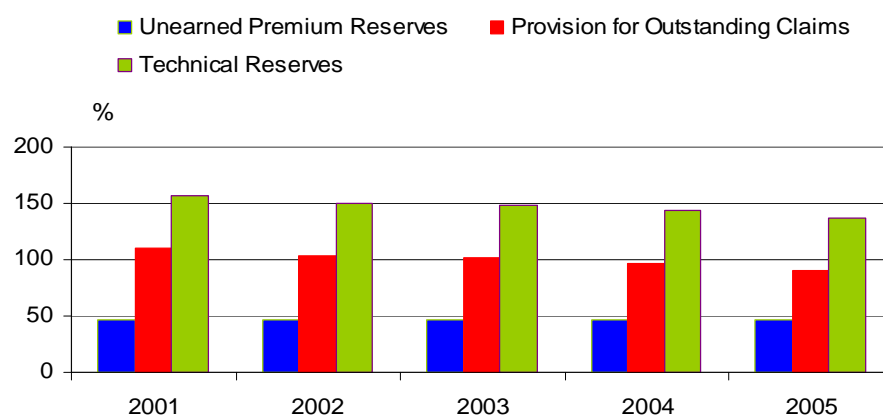


Source: BNM Insurance Annual Report 2005

Aggregate net premiums grew at a faster rate of 9.3% in 2005, on the back of robust gross premium growth. More significantly, the industry achieved a marked improvement in capital efficiency, with the ratio of net premiums to shareholders' funds of direct insurers increasing to 112.8% (2004: 99.7%). The proportion of direct insurers reporting a net premium to shareholders' funds ratio of below 100%, reduced to 53.8% from 66.7% previously, thus reinforcing the industry's stability and resilience.

Overall reserve levels appear to be at a sound level given the industry's relatively low exposure to long-tailed liability claims. Technical reserves as a percentage of net premiums of the industry stood at 136.97% in 2005, still significantly above the yardstick of 125%. The decline reflects the year's more favourable claims experience and the enlarged premium bases for certain classes, namely the motor-'Act' and offshore oil-related classes. The Central Bank's impending implementation of new general insurance reserving guidelines should enable insurers to adopt a more prudent reserving basis going forward, through the removal of any existing implicit buffers while maintaining current reserves at a cautious level.

Exhibit 6: Technical Reserves



Source: BNM Insurance Annual Report 2005

The Central Bank's proposed risk-based capital (RBC) framework, details of which were released in 2004, progressed further with the issuance of a second concept paper in December 2005. The RBC framework will replace the current solvency regulations and is designed to reform insurers' prudential regulation and allow individual insurers to align their solvency regime according to their respective individual risk profiles. A parallel run with the existing solvency framework is scheduled in 2007 prior to its implementation in 2008. The implementation of the RBC framework, the adoption of the new financial reporting standards and the progressive deregulation of the motor and fire tariffs will see increased expenditure by insurers on the infrastructure and human resources needed to meet the higher standards of risk management.

Outlook

The underlying fundamentals for sustainable growth have strengthened with stronger reported solvency positions for most general insurers, continued profitability and improved underwriting discipline. MARC believes the trend towards tighter underwriting standards is here to stay. Growth prospects for 2006 are expected to remain strong aided by the positive outlook in the domestic economy and anticipated premium rate increases for certain commercial lines of business resulting from the follow-through effects of the 2005 hurricane losses in the United States. Notwithstanding, general insurers still face formidable challenges: higher premiums may affect growth in policy numbers, claims will continue to be impacted by higher inflation, and the regulatory environment is becoming more demanding.

BUSINESS ANALYSIS

Exhibit 7: Performance indicators

FYE 30 June	2005	2004	2003	2002	2001
Gross premiums (RM'000))	1,187,062	1,056,291	951,497	873,737	704,409
Annual change (%)	12.4	11.0	8.9	24.0	23.4
Net premiums (RM'000)	1,092,923	963,769	864,195	789,407	650,254
Annual change (%)	13.4	11.5	9.5	21.4	24.5
<i>Net premiums by line of business (%)</i>					
Motor	94.4	93.6	93.7	94.5	93.3
Medical and Personal Accident	1.5	1.9	2.1	2.1	3.0
Fire	1.1	1.3	1.2	1.3	1.7
Marine, Aviation and Transit	0.5	0.6	0.7	0.4	0.3
Others	2.5	2.6	2.3	1.7	1.7
TOTAL	100.0	100.0	100.0	100.0	100.0
Market share of general industry net premiums (%)	14.5	13.9	13.4	13.1	12.1
Market share of motor net premiums (%)	23.9	23.6	22.6	22.3	20.0

Kurnia maintained its pole position as the country's largest general insurer in 2004/2005 with a 14.5% share of the industry's net premiums (2003/2004: 13.9%)⁴ and a 23.9% share of the motor insurance segment, reflecting customers' acceptance and confidence in its products and services. Kurnia's range of general insurance products includes but is not limited to medical and personal accident (PA), fire, and marine, aviation and transit (MAT). The Company has successfully carved a niche in the motor segment, and has been able to build a sizeable business to enable it to operate effectively and efficiently as a specialist motor insurer.

In FY2005, the Company achieved a double digit growth in gross premiums of 12.4% (FY2004: +11.0%) to RM1.19 billion, surpassing its RM1.16 billion target. The growth was nevertheless restrained by the further decline in the inward reinsurance business to RM1.0 million (FY2004: RM3.2 million). Kurnia's target is to achieve gross premiums in excess of RM1.2 billion for the current financial year ending June 30, 2006.

Kurnia's business comes largely from its 7,000-strong agency force, which contributed 94.3% of the Company's total gross premium income in FY2005 (FY2003: 94.0%). In addition, Kurnia actively explores other avenues of distribution as evidenced by collaborations with Hong Leong Bank Berhad (HLBB) and Pos Malaysia. Kurnia has also established reciprocal business relationships with nine other financial institutions that channel their customers' insurance requirements to the Company.

While most classes of non-motor business recorded negative growth, the Medical, Workmen's Compensation and Bond business grew positively. Medical and health insurance will be the catalyst in expanding to non-motor business over the next three years. Kurnia targets to increase its non-motor premium to 15% of overall premium. Its strategy in 2006 is to focus on maintaining high renewal of policies apart from capturing market share from competitors through premium growth sourced from non-motor business. Other non-motor products that the company intends to push are engineering risk, fire and personal accident products. To this end, two new departments have been set-up specifically to handle non-motor business and research and development. Other actions include assigning responsibilities for non-motor business performance by states/branches and operating units, quarterly reviews of non-motor performance and incorporating non-motor performance as a major component of performance appraisals. Kurnia aims to restructure and further develop its marketing force and existing non-motor agents with emphasis on enhancing the marketing of medical insurance products.

⁴ BNM Insurance Annual Report 2005

Other efforts to expand its penetration of the non-motor sector include forming strategic alliances with HLBB and Balai Ikhtisas Malaysia (BIM) and appointing Kenanga Business Access, a subsidiary of K&N Kenanga Holdings Sdn Bhd as its corporate agent, in May and October 2005, respectively. This allows them access to a wider and more diverse customer base through BIM's membership of twenty professional bodies and K&N Kenanga's corporate clients in financial services. Kurnia plans to grow their non-motor business by providing a wide range of insurance packages to suit the needs of this new customer base.

Going forward, Kurnia aims to review and enhance existing products and develop its distribution channels by fostering partnerships with motor franchise holders and utilizing Kurnia's website to offer renewal services and cross-sell other products. Kurnia's efforts at varying its business sources bode well for prospective premium growth, product visibility and market penetration as it extends its customer base through these alliances.

Motor In 2004/2005, Kurnia maintained its leadership position in the local motor insurance segment, for the eighth consecutive year, with a 23.9% share of the market's total net premiums compared to 23.6% previously. AmAssurance Berhad trailed at a distant second, with 6.7% of market share (2003/2004: 5.7%). The motor business remained the main contributor to the Kurnia's total net premium (94.4%) and total underwriting profits (90.6%) in FY2005. However, it ranked third in terms of underwriting margin.

The bulk (73.2%) of its RM1.1 billion⁵ motor gross premiums were contributed by private cars, followed by commercial vehicles (17.2%) and motorcycles (9.0%). In terms of policy mix, Kurnia derived 81.6% (FY2004: 81.7%) of its motor gross premium from non-mandatory motor covers. While motor premiums are concentrated in comprehensive cover for private cars, policy numbers are more evenly spread across classes of business with private cars and motorcycles making up 51.0% and 41.5%, respectively of the 3.4 million⁶ motor policies written. During the year, net claims incurred increased marginally by 2.3% to RM599.4 million in line with the 14.4% growth in motor net premiums. Total gross claims paid of RM495.0⁷ million in FY2005 (FY2004: RM496.0 million) were made up mainly of own damage (33.5%), bodily injury (30.6%) and theft (15.8%) claims.

In FY2005, Kurnia's claims ratio stood at 60.4% (FY2004: 69.7%), well below the motor insurance industry average of 70.7%⁸. This was largely due to a higher earned premium income as a result of an increase in average policy size and a smaller charge for unexpired premiums reserve. Consequently, Kurnia recorded an underwriting margin of 29.9%, the highest in the motor insurance industry. Kurnia actively monitors and amends its underwriting and premium loading of policies in response to changes in claims experience and operating environment.

Survey and adjuster reports by Kurnia's in-house surveyor and panel of adjusters are prepared using the centralized database for motor parts and prices as required by BNM thus ensuring accurate and standardized estimates of claim amounts. The recentralization of TPBI (third party bodily injury) claims processing to its head office in August 2004 has increased total TPBI gross claims paid due to faster settlement of claims payable. Commission expense increased by 14.0% to RM96.8 million in line with the growth in gross premiums. Commission ratio, on the other hand, remained at 9.4%, stabilized by the increase in net premiums. In FY2005, the motor 'Act'⁹ business, representing 18.4% of the total motor portfolio, enjoyed a 62.8% decrease in underwriting loss to RM43.0 million due to its lower claims exposure of 113.6% (FY2004: 164.5%). The RM339.8 million (FY2004: RM285.9 million) profits generated from the motor non-'Act' business resulted in an increase of the overall underwriting profits to RM296.8 million during the year (FY2004: RM170.4 million).

⁵ Excluding RM0.08 million of inward retrocession business.

⁶ Includes estimated pipeline

⁷ Excluding inward claims, professional fees and other associated expenses

⁸ BNM Insurance Annual Report 2004

⁹ Compulsory 'third party' insurance cover required under the Road Transport Act 1987 for vehicles to be legally useable on public roads.

Exhibit 8: Peer Comparison – Selected Indicators

Motor Business	Kurnia 30.6.05	AmAssurance 31.3.05	Uni.Asia 31.3.05	MAA 31.12.05
Net Premiums (RM mil)				
2004/2005	1,031,907	289,019	221,507	236,725
2003/2004	902,336	216,602	211,027	188,401
Claims ratio (%)				
2004/2005	60.4	70.8	62.7	64.7
2003/2004	69.7	68.16	63.3	69.7
Underwriting Margin (%) ¹⁰				
2004/2005	29.9	18.0	29.4	24.3
2003/2004	20.3	18.5	27.8	22.0

Note: Kurnia Insurans Bhd, Uni.Asia General Insurance Bhd (formerly known as SEA Insurance Bhd), MAA, AmAssurance Bhd are the four largest motor insurers in Malaysia.

In December 2004, the 2005 tax structure for ASEAN imported motor vehicles was announced followed by price stabilizing measures by the government such as optional use of the new tax rates for the first half of 2005 and extending fiscal incentives given to other economic sectors to the automotive industry. This served to remove uncertainties regarding motor vehicle prices and coupled with a strong economic growth forecast, positive consumer sentiment and cheap hire purchase terms, industry volume grew to an all time high of 550,000 units in 2005, representing a 13% increase over 2004 sales. Due to the robust motor vehicle sales of 2004 and exceptional sales figures for 2005, Kurnia's motor business expanded by 14.0%¹¹ (FY2004: +10.2%), in line with the industry growth of 14.4%¹².

However, in 2006, a more challenging outlook has emerged following recent developments. Car sales are expected to weaken with a projected growth of only 3%¹³. Among the developments are the higher cost of car ownership following the rise in fuel prices and the recent increases in the overnight policy rate. Add to this a rising number of non-performing loans in the industry and a difficult scenario emerges for the motor insurance segment as premium growth and renewal rates are impacted by decreasing sales and increasing numbers of reposessions. Nonetheless, the newly unveiled duty structure and National Automotive Policy offers hope in the form of an overall reduction in the effective tax rate on most motor vehicles which may translate into lower car prices.

In FY2005, Kurnia's motor renewal rate decreased marginally to 67.0% (FY2004: 68%), partly due to the increase in premium loadings for third party commercial vehicle policies in November 2004. Nonetheless, the success of KAA¹⁴ (introduced in October 2000), with a membership that has grown to 1 million members continues to be a strong selling point for its motor insurance policies and is integral in maintaining customer satisfaction and loyalty. Steps to improve service quality include the introduction of KAA servicing motorcycles in April 2004 and the recruitment of an additional 222 new partner merchants for KAA's incorporated discount facility, bringing the total number to 1,243.

Another successful innovation by Kurnia is its immediate claims settlement service, Kurnia Express (KE) launched in December 2003, the first of its kind in the local motor insurance industry. It aims to reduce settlement amounts whilst increasing the speed of settlement. KE offers cash settlement for motor own-damage claims not exceeding RM3,000 to comprehensive private car policyholders. The claims are settled within a one-hour period at any of the KE Service Centers throughout Malaysia. On average, Kurnia receives 889¹⁵ claims a month through KE, indicating customers' acceptance of the service.

¹⁰ Underwriting margin is computed before management expenses as follows:
Underwriting profit (before management expenses)
 Earned Premium Income

¹¹ In terms of gross premiums written

¹² BNM Insurance Annual Report 2005

¹³ Malaysian Institute of Economic Research in an article from The Star dated 17th March 2006

¹⁴ KAA is a free 24-hour breakdown assistance service launched for Kurnia's comprehensive private car insurance policyholders and third party policyholders with DPPA (driver and passenger personal accident) policies.

¹⁵ Average no. of claims per month based on monthly claims numbers for the period Jul 04-Jun 05

Medical and Personal Accident (PA)

In FY2005, the medical and PA business remained as Kurnia's second largest insurance segment, although it contributed only RM16.2 million or a mere 1.5% (FY2004: 1.9%) towards the Company's total net premium. Kurnia remains aggressive in expanding the medical business as part of the Company's plan to increase its share of the industry's non-motor market. The introduction of two new medical products, namely MediGuard and MediGuard Express, in December 2004, has resulted in gross premiums for its Medical and Health insurance segment increasing by 30.0% to RM3.7 million (FY2004: RM2.9 million), with 40.5% (RM1.5 million) of it attributable to these two policies. As at October 2005, total number of policies issued for MediGuard Express and MediGuard are 4,760 and 720 policies respectively, sourced mainly through Kurnia's extensive agency force. Prospects for growth in this segment remain good due to the rising costs of health care and increased awareness among Malaysians of the need for medical provision. Kurnia's MediGuard range offers advantages such as a self-run call centre and immediate admission (MediGuard Express) which provides a competitive advantage over other insurers.

During the year, net claims incurred and net commissions for the medical and PA business declined to RM4.4 million (FY2004: RM4.7 million) and RM2.6 million (FY2004: RM3.3 million) respectively. These translated into lower claims and commission ratios of 26.7% (FY2004: 26.8%) and 15.8% (FY2004: 18.2%). Underwriting profit decreased marginally by 1.6% to RM9.4 million (FY2004: RM9.6 million) due to a 43.2% increase in outward reinsurance premiums to RM5.9 million (FY2004: RM4.1 million). Nonetheless, the medical and PA segment remained as the Company's most profitable class of business in FY2004 with an underwriting margin of 57.6% (FY2004: 54.5%).

Fire The premium split between commercial and residential buildings is approximately 89:11, with the concentration on commercial buildings being driven by its higher premium value. The fire segment registered a decrease of 5.3% in net premium income to RM12.2 million, lowering its contribution to 1.1% (FY2004: 1.3%) of the Company's total net premium in FY2005. Net claims incurred rose slightly to RM6.2 million (FY2004: RM5.9 million) which could be attributed to the marginal increase in retention ratio to 59.7% (FY2004: 57.8%). The distribution of claims payment in FY2005 remained the same with 90.0% of claims paid related to commercial buildings whilst the remaining 10.0% were for residential buildings. In line with the decrease in net premiums, net commissions decreased by 39.3% to RM0.6 million, contributing to the 27.2% increase in underwriting profit to RM5.6 million. With an underwriting margin of 45.3% (FY2004: 38.9%), fire was the second most profitable class of business in FY2005. Despite a review of the fire tariff last year by PIAM, the current tariff remains unchanged leaving insurers little room to improve underwriting profitability for this segment.

Marine, aviation and transit (MAT)

A net premium decrease of 11.6% registered by the MAT business (FY2004: +0.4%) to RM5.0 million in FY2005 was due to the adverse claims experience in the marine hull and aviation business in FY2004 which led Kurnia to classify such risks as 'decline risk'. Consequently, its contributions to the Company's total net premium remained insignificant at 0.5% (FY2004: 0.6%), with the bulk of the business being derived from cargo insurance.

Kurnia's conservative stance successfully lowered net claims incurred by 27.8% to RM3.5 million. Commission expense remained stable at RM0.7 million. These resulted in a lower claims ratio of 68.0% (FY2004: 80.9%) and only a marginal increase in commission ratio to 13.5% (FY2004: 12.2%). As a result, underwriting profit more than doubled to RM0.9 million (FY2004: RM0.4 million). Nonetheless, it remains the least profitable class of business with an underwriting margin of only 18.7% in FY2005 (FY2004: 7.4%).

Others During the year, the Ministry of Human Resources tightened the market to allow only four insurers, including Kurnia, to underwrite the foreign workers compensation scheme (FWCS) policy effective 1 June 2004. However, the Ministry has since increased the number of panel members to ten. Despite the increased competition, Kurnia's gross premiums from the foreign workers compensation scheme (FWCS) business rose by 43.3% to RM8.5 million in FY2005. Going forward, the FWCS business is expected to grow favourably and help boost Kurnia's non-motor business. Kurnia's underwriting of 20.0% of Sarawak Hidro (Bakun dam) and 25.0% of Tenaga Nasional Berhad's Janamanjung engineering risks which began in 2004, generated a combined gross premium of RM3.25 million for FY2005.

Distribution Channels

Being primarily a direct underwriter with inward reinsurance contributing less than 1.0% towards the Company's total gross premiums in FY2005 and FY2004, Kurnia relies heavily on agents as its main distribution channel. As at 30 June 2005, Kurnia's agency force decreased to 6,981¹⁶ (FY2004: 7,611), 26.0% of whom are full-time agents¹⁷, following Kurnia's review and suspension of non-productive and non CBC¹⁸-compliant agents. Recognizing the importance of its agency force, which contributed 94.3% of the Company's total gross premium income in FY2005 (FY2004: 94.0%), Kurnia strives to empower its agents to stay ahead and compete effectively through specific training sessions such as training on the web-based Electronic Agency Service Centre (e-ASC) which allows agents to process e-cover notes, submit policy applications and conduct other types of transactions through the internet.

In line with the Department of Transport's (JPJ) directive, the issuance of e-cover notes has been implemented since 1 January 2005. Kurnia further expanded on this by offering the electronic policy (e-policy) service in June 2005, enabling its agents to issue and print an insurance policy on the spot upon confirmation of the e-cover note by JPJ. Further e-initiatives are also in the pipeline including the recently launched pilot program for an e-payment scheme which is currently being live-tested in the Klang Valley.

Recognizing the need to diversify its distribution channel as a means of achieving wider market penetration and increased premium production, Kurnia continued its collaboration with Hong Leong Bank Berhad (HLBB), Pos Malaysia and its reciprocal relationships with nine financial institutions that channel their customers' insurance requirements to the Company. It has also aligned itself with Kenanga Business Access by making them one of its corporate agents, thereby gaining access and opportunity to meet the insurance needs of K&N Kenanga's many corporate clients. Kurnia plans to grow their non-motor business by providing insurance packages to suit the needs of this new customer base. Future plans include fostering partnerships with motor franchise holders and utilizing Kurnia's website to offer renewal services and cross-sell other products.

¹⁶ Excludes franchises, financial institutions and brokers

¹⁷ Full time agents are agents registered with PIAM, earning income generated from insurance business of at least RM1,500 per month on average.

¹⁸ Cash Before Cover

OPERATING/UNDERWRITING PERFORMANCE

Exhibit 9: Underwriting Performance – Selected Indicators

FYE 30 June	2005	2004	2003	2002	2001
Underwriting profit (RM'000)	159,467	30,948	103,587	74,205	66,812
Profit before tax (RM'000)	214,498	89,176	164,764	152,477	86,385
Underwriting margin (%)	15.1	3.4	12.4	10.2	11.0
Pre-tax profit/ Average Shareholders' Funds (%)	47.4	21.2	40.6	46.3	35.3
Claims ratio (%)	59.0	68.0	57.4	58.7	57.2
Total expense ratio (%)	25.0	26.6	29.3	28.8	29.8
Combined ratio (%)	84.0	94.6	86.7	87.5	87.0
Operating ratio (%)	78.9	88.6	81.4	81.5	80.5

Kurnia's overall underwriting results for FY2005 improved significantly by 415.3% to RM159.5 million (FY2004: -70.1%) as evidenced by a double digit growth in gross premium income for the second consecutive year. The lower claims ratio was attributed mainly to the higher earned premium income as a result of an increase in premium size and a lower increase in unearned premium reserve during the year. Underwriting results improved for all classes of insurance except Medical and PA, the most notable being the motor 'Act'¹⁹ business, which enjoyed a 62.8% decrease in underwriting loss to RM43.0 million.

Recent restrictions to underwriting acceptance of factory, express and tourist buses should effectively curb the cross-subsidy of losses from the buses with premium income from its more profitable private passenger car business. Underwriting profit is expected to improve as Kurnia continues its disciplined approach to accepting underwriting risks. However, the overall effect may be moderated by the consequent reduction in gross premiums. Nonetheless, it reflects Kurnia's proactive attitude in managing risk which is necessary in maintaining business viability.

The claims ratio for FY2004 of 68.0% was inflated due to a one-off adjustment in IBNR (Incurred But Not Reported) provision. The IBNR provision moderated this year resulting in only a conservative increase of 1.9% in net claims incurred to RM622.4 million for FY2005 (FY2004: RM610.9 million) and an overall claims ratio of 59.0% which is stable in relation to the normalized claims ratio for FY2004 (58.3%) and its claims ratios in the years prior to FY2004.

Net commissions increased by 11.7% to RM104.9 million in line with the growth in gross premiums. Management expenses increased only moderately to RM168.2 million (FY2004: RM162.4 million), helped by the recovery of bad debts amounting to RM4.0 million during the year. Implementation of strict cost control measures such as the procurement tendering system; the cost conscious mindset fostered among employees; and the streamlining of operation procedures using an enhanced computerized system have helped to keep management expenses under control. The success of the cost control efforts is reflected in a lower total expense ratio of 25.0% (FY2004: 26.6%), which outperformed the industry average of 31.2%. However, going forward, marketing expenses are expected to rise due to increased efforts to promote non-motor products such as its MediGuard range.

¹⁹ Compulsory third party' insurance cover required under the Road Transport Act 1987 for vehicles to be legally useable on public roads.

INVESTMENTS

Exhibit 10: Investment returns - Highlights

FYE 30 June	2005	2004	2003	2002	2001
Net investment income (RM'000)	53,480	54,047	43,842	44,002	39,375
Investment yield (%) [*]	3.6	4.5	4.2	4.6	4.7
Investment return (%)	3.8	6.9	6.4	7.9	2.8
Total invested assets (RM'000)	1,598,490	1,335,425	1,050,750	1,030,873	877,444

^{*} Excludes profit/(loss) on disposal of investments

Kurnia's investment policy is in the context of the total invested assets for each fund and is managed by the Investment Department. It has an Investment Committee (IC) formalized in January 2005, consisting of five members including the Chief Executive Officer, Chief Financial Officer and Chief Investment Officer of Kurnia. Going forward, the committee has been tasked to migrate funds from low-yielding deposits to financial instruments with higher returns while ensuring prudence and adherence to BNM guidelines and capital preservation. Investment strategies are reviewed yearly or more frequently according to economic conditions, and upon changes in regulations. The IC's decision is final within a specified set of limits. Proposals exceeding these limits must have the approval of the EXCO members. This acts as a safeguard in ensuring the security of investments. Other protective restrictions include allowing only main board listed equity investments which meet certain criteria such as having a strong product or service to offer, experienced management at the helm, and are market leaders where possible. As required, all equities were held in Main Board counters as at 30 June 2005. Exposure is limited by company or sector (5% and 10%, respectively) which should insulate against company or sector specific adverse developments.

Private debt securities (PDS) investments are required to have a minimum rating of BBB. Fixed Income Securities (FIS) must be Ringgit denominated and have a rating of A3/A- or P2/MARC-2 or a comparable rating by a recognized rating agency. Non-rated FISs must be secured as per BNM's definition. Any exceptions or deviations are referred to the Investment Committee. In FY2005, all the PDS held in the RM138.0 million portfolio have a minimum rating of A, with the bulk of it (78.9%) carrying an AA rating. In terms of industry segmentation, RM79.0 million or 57.2% were invested in the power industry, followed by 14.7% in consumer products, and 10.8% in the construction industry.

In FY2005, Kurnia's composition of liquid assets (cash and deposits plus government securities) increased to 79.8% (FY2004: 67.4%) mainly due to cash generated from core business activities and a reduction in equities investment to 8.6% of total invested assets (FY2004: 18.2%), which could be attributable to poor returns in the equity market. The composition of PDS, reduced marginally from 8.9% in FY2004 to 7.4% in FY2005. In absolute terms, equity investments have decreased by more than half to RM118.3 million (FY2004: RM243.2 million), whilst PDS investments increased by 16.1% to RM138.0 million.

Investment yield

Due to the significant decrease in equity investments, Kurnia's investment leverage declined from 60.7% in FY2004 to 25.6% in FY2005. The corresponding decrease in dividend income to RM10.3 million (FY2004: RM14.8 million) and profit from the disposal of investments to RM2.1 million (FY2004: RM28.0 million) resulted in the decline in total investment return to 3.8% (FY2004: 6.9%). A 14.0% increase in interest income to RM43.0 million failed to offset these developments, resulting in a decreased investment yield²⁰ of 3.6% (FY2004: 4.5%).

²⁰ excludes realized capital gains and losses

LIQUIDITY AND CASH FLOW

Exhibit 11: Liquidity and Cash Flow Ratios

FYE 30 June	2005	2004	2003	2002	2001
Underwriting cash flow ratio (%)	151.3	126.2	128.9	131.1	122.2
Total cash flow ratio (%)	138.3	113.4	112.2	133.3	116.4
Liquid assets/Technical reserves (%)	95.6	76.6	75.6	72.9	63.4
Liquid assets/Liabilities (%)	89.9	71.8	69.5	65.6	56.3

Net cash flow generated from Kurnia's underwriting activities increased twofold to RM390.9 million in FY2005 (FY2004: RM195.8 million), driven by the 13.4% increase in net premium income. Accordingly, underwriting cash flow ratio increased to 151.3% (FY2004: 126.2%) further aided by the reduced claims payout. Total cash flow ratio also rose to 138.3% (FY2004: 113.4%) owing to a decline in premiums owed by agents and reinsurers.

The Company's level of liquid assets continued to expand by 41.8% to RM1.3 billion in FY2005, leading to an improvement in both liquid asset coverage of technical reserves and liabilities to 95.6% (FY2004: 76.6%) and 89.9% (FY2004: 71.8%) respectively.

Net trade receivables decreased by 77.4% to RM13.8 million in FY2005 as Kurnia effectively halved outstanding premiums and agent balances to RM 45.6 million (FY2004: RM 101.0 million). This was due to Kurnia's strict monitoring to ensure compliance with Bank Negara's new action framework for CBC non-compliance (introduced in October 2004) for motor covers. Under this framework, insurers are only allowed to treat motor premiums outstanding for less than 14 days as admitted assets for solvency compliance purposes and are required to make provision for motor premiums outstanding for more than 30 days from their agents. The ratio of trade receivables to shareholders' funds correspondingly lowered to 2.8% in FY2005 (FY2004: 14.7%). The absolute value of trade receivables that were more than six months old decreased to RM46.0 million (FY2004: RM61.2 million), and have already been fully provided for. It represents 72.4% of total trade receivables. Delayed debt collection was mainly due to outstanding agent balances which are being recovered through legal action.

CAPITALIZATION AND RESERVES

Exhibit 12: Capital Adequacy Ratios

FYE 30 June	2005	2004	2003	2002	2001
Shareholders' funds (RM'000)	491,449	412,763	429,111	381,850	277,352
Operating leverage (%)	222.4	233.5	201.4	206.7	234.5
Investment leverage (%)	25.6	60.7	28.6	41.8	56.4
Claim reserves/Shareholders' funds (x)	177.1	181.6	151.0	158.1	198.7
Claims reserves (RM'000)	870,373	749,592	647,826	603,844	551,206
Claims reserves/Net premiums (%)	79.6	77.8	75.0	76.5	84.8
Technical reserves (RM'000)	1,334,813	1,176,080	1,008,683	937,361	826,035
Technical reserves/Net premiums (%)	122.1	122.0	116.7	118.7	127.0

Kurnia's share capital remained at RM200.0 million as at 30 June 2005; double the revised minimum paid-up capital requirement of RM100.0 million. In spite of the higher dividend payment of RM75.0 million in FY2005 (FY2004: RM70.0 million), total shareholders' funds increased by 19.1% to RM491.4 million bolstered by a 186.4% increase in net profit to RM153.7 million. This, coupled with lower equity investments, led to lower operating and investment leverages of 222.4% (FY2004: 233.5%) and 25.6% (FY2004: 60.7%) respectively.

Various pro-active initiatives taken by management to control claims expenses have had the unintended effect of under-estimating case reserves as at June 2004 which resulted in a higher provision for IBNR for FY2004. However, the case reserves have since been restored to the appropriate level as at June 2005. Among the trends revealed by Kurnia's historical data, as observed by the appointed actuary, is a

clearer indication that the average claim size for Motor-Act claims has been on the rise and that reserves made in respect of older loss years based on previous years' assumptions are now found to be too optimistic. These latest findings, together with other observations, have been taken into consideration in the revised actuarial estimate of the appropriate level of IBNR provision required as at June 2005.

In FY2005, Kurnia's claims and technical reserves strengthened to RM870.4million (FY2004: RM749.6 million) and RM1.3 billion (FY2004: RM1.2 billion) respectively which led to improvements in the claims and technical reserves over net premiums to 79.6% (FY2004: 77.8%) and 122.1% (FY2004: 122.0%) respectively.

The Company's solvency position remained adequate, as surplus of admitted assets over the margin of solvency more than doubled to RM169.8 million in FY2005 (FY2004: RM83.4 million) reflecting a coverage of 110.3%.

REINSURANCE

Effective January 1, 2005, voluntary cession to MNRB dropped to 4% (January 2003: 5%) of its motor portfolio. It also has in place excess of loss treaties to cover motor claims exceeding RM350,000²¹. In line with the reduction, Kurnia's retention ratio increased to 92.1% (FY2004: 91.2%), 4.3% above the industry level of 87.8%. The higher retention reflects the Company's portfolio composition which is dominated by the motor class, a relatively small risk business. The current low reliance on reinsurance support protects the Company from reinsurance premium rate hikes which may impose a downward pressure on underwriting results. Going forward, Kurnia's reinsurance usage is expected to drop further with the increase in the retention levels per risk²² to RM0.5 million for the motor class. In light of rising claim sizes, a higher level of reinsurance would offer increased security in terms of claims coverage. However, in view of the high cost of reinsurance, Kurnia is of the opinion that better claims management would be a more effective tool in keeping claims in check.

The credit risk of reinsurers is well mitigated as Kurnia maintains a panel of seven different reinsurers, with the addition of Swiss Re during the year. The reinsurers are selected based on its 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-. In FY2005, claims recoverable from reinsurers increased to RM59.9 million (FY2004: RM51.8 million), representing 12.2% (FY2004: 12.6%) of shareholders' funds.

Exhibit 13: Ratings of reinsurers

Reinsurers	Rating	Rating Agency
Munich Re	A+	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
CCR	AAA	Standard & Poor's
Swiss Re	AA	Standard & Poor's

As at 30 June 2005, outstanding premiums and claims receivable from reinsurers that were more than six months old went down to 67.1% (FY2004: 76.3%). This improvement was a result of the recentralization of Kurnia's claims recovery unit. As a result, total amount due from reinsurers²³ decreased by 18.5% to RM17.8 million in FY2005 (FY2004: RM21.9 million). Correspondingly, total provision for these balances declined by 28.6% to RM12.0 million. Slow recoveries were mainly caused by old outstanding claims with difficult and hard to trace documentary requirements, as well as reinsurers that have been put under provisional liquidation.

²¹ practiced since July 2001

²² Determined with reference to the size of shareholders' funds, premium base, nature of risks insured as well as the expected frequency of claims.

²³ Overdue for more than 6 months

MANAGEMENT AND CORPORATE STRATEGY

Management Kurnia's Executive Committee (EXCO)²⁴ and Senior Management Committee (SMC) are made up of highly experienced individuals, most of whom have at least ten years experience in the insurance industry. Factors such as aggressive marketing strategies; stringent claims controls and the management's hands-on approach in dealing with operational issues, have benefited Kurnia over the years and led the Company to become the industry leader it is today.

Kurnia has also endeavoured to improve its succession planning and is currently in the midst of migrating its 'Kurnia Corporate Culture and Mentoring' programme to the new 'Executive Exchange' programme. Furthermore, it recently set-up a Staff HelpDesk which offers a platform from which staff may contribute feedback and share suggestions and is also viewed by management as a resource for scouting the future leaders of Kurnia.

Mr Kong Shu Yin, remains as Kurnia's CEO since his appointment in August 2004. In December 2004, Dato' Othman bin Abdul was appointed as the Chairman of Kurnia's board of directors, taking over from Dato' Adrian Loh, who was appointed as CEO of KAB and remains a director with KIMB.

Operations In spite of the competitive environment of the general insurance industry, Kurnia surpassed its goal of RM1.16 billion in gross premiums in FY2005. Kurnia's business continues to expand, with the number of policies reaching 3.7 million in FY2005. Kurnia follows the International Standardization Organization (ISO) requirements closely and has successfully renewed its ISO 9001:2000 certification in 2005 for the tenth consecutive year.

Kurnia is intensifying its efforts to upgrade operational efficiency with plans for improving credit control by stepping up premium collection efforts, ensure more effective and efficient claims management, enhance cost management by controlling management expenses and optimizing investment returns. The ISO standards and quality culture is regarded as an instrument to monitor and cultivate market-driven and customer service attitudes at all levels through the maintenance of fully documented and up-to-date operational procedures, total quality inspections and audits, as well as the tracking of customer feedbacks and complaints, all of which gives Kurnia its competitive edge in the industry.

Kurnia recently recentralized its claims operations to Head Office to facilitate better claims control and management. Other efforts at improving operational efficiency include further investments in IT of RM17.9 million²⁵ in FY2005 (more than double last year's expenditure of RM8.6 million) and a budgeted investment of RM14.3 million for 2006. In FY2005, these funds were used to upgrade Kurnia's computing hardware, network infrastructure and network security thereby allowing the daily generation of more comprehensive and detailed reports which provides for better analysis and review by marketing executives in formulating marketing strategies. The resultant expansion in network and internet access capacity and improved security is also an essential feature in the provision of any internet-based financial service.

Kurnia's pursuit of technological improvements has been instrumental in its successful implementation of the e-ASC (Electronic Agency Services Centre) leading to the issuing of e-cover notes and e-policies since January 2005 and June 2005, respectively, through a linkage with JPJ²⁶. It has also paved the way for the testing of its new web-based insurance application system, which allows transactions to be carried out in and out of the office via the internet, thus improving staff efficiency and productivity.

Strategies Kurnia Asia Berhad (KAB), Kurnia's new holding company, plans to expand further into the Association of South East Asian Nations (ASEAN) region, namely Indonesia and Thailand, over the next two to three years, either through the purchase of divested businesses or tie-ups with strong foreign insurers.

²⁴ Comprised of an executive chairman, deputy executive chairman, managing director/ceo, director and executive advisor.

²⁵ Excluding depreciation expense.

²⁶ Road Transport Department

KURNIA INSURANS (MALAYSIA) BERHAD

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46150 Petaling Jaya, Selangor

TEL: (603) 7875 3333 FAX: (603) 7875 9933

Website: www.kurnia.com.my

BOARD OF DIRECTORS (As at 31 December 2005)

Chairman	:	Dato' Othman bin Abdul
Executive Director	:	Dato' Quah Teong Moo
CEO/Director	:	Mr. Kong Shu Yin
Directors	:	Tan Sri Kua Sian Kooi
		Dato' Adrian Loh Heong Chow

MAJOR SHAREHOLDER Kurnia Asia Bhd : 100.0 %

Auditor : KPMG

KURNIA INSURANS (MALAYSIA) BERHAD PROFIT AND LOSS ACCOUNT

Financial Year Ending: June 30	RM'000				Change (%)		
	2005	2004	2003	2002	2005	2004	2003
GENERAL INSURANCE REVENUE ACCOUNT							
Gross Premiums - direct business	1,186,052	1,053,111	921,712	849,203	12.6	14.3	8.5
- reinsurances accepted	1,010	3,180	29,785	24,534	(68.2)	(89.3)	21.4
	1,187,062	1,056,291	951,497	873,737	12.4	11.0	8.9
Less: Reinsurance	94,139	92,522	87,302	84,330	1.7	6.0	3.5
Net Premiums Written	1,092,923	963,769	864,195	789,407	13.4	11.5	9.5
Add: Dec/(Inc) in reserve for unexpired risks	(37,952)	(65,631)	(27,340)	(58,688)	(42.2)	140.1	(53.4)
Earned Premium Income	1,054,971	898,138	836,855	730,719	17.5	7.3	14.5
Gross claims paid less salvage	555,513	562,223	480,387	418,479	(1.2)	17.0	14.8
Less: Reinsurance recoveries	53,943	53,125	44,051	42,317	1.5	20.6	4.1
Net claims paid	501,570	509,098	436,336	376,162	(1.5)	16.7	16.0
Add: Inc in provision for claims	120,781	101,766	43,982	52,638	18.7	131.4	(16.4)
Net Claims Incurred	622,351	610,864	480,318	428,800	1.9	27.2	12.0
Less: Net Commissions	104,925	93,952	93,434	86,467	11.7	0.6	8.1
Less: Management Expenses	168,228	162,374	159,516	141,247	3.6	1.8	12.9
	273,153	256,326	252,950	227,714	6.6	1.3	11.1
Underwriting result	159,467	30,948	103,587	74,205	415.3	(70.1)	39.6
Investment Income	53,480	54,047	43,842	44,002	(1.0)	23.3	(0.4)
Other Income/(Expenditure)	1,551	35,285	18,738	35,932	(95.6)	88.3	(47.9)
Net Other Income/(Expenditure)	55,031	89,332	62,580	79,934	(38.4)	42.7	(21.7)
Less: Amortisation/impairment of goodwill	0	31,104	1,403	1,662	(100.0)	2117.0	(15.6)
PROFIT BEFORE TAX	214,498	89,176	164,764	152,477	140.5	(45.9)	8.1
Taxation	60,812	35,524	47,503	47,979	71.2	(25.2)	(1.0)
PROFIT AFTER TAX	153,686	53,652	117,261	104,498	186.4	(54.2)	12.2
RETAINED PROFITS/(LOSS) B/F	212,763	229,111	181,850	77,352	(7.1)	26.0	135.1
Capitalisation for bonus issue	0	0	0	0	n.m	n.m	n.m
Dividends	75,000	70,000	70,000	0	7.1	n.m	n.m
RETAINED PROFIT/(LOSS) C/F	291,449	212,763	229,111	181,850	37.0	(7.1)	26.0

n.m - not meaningful

KURNIA INSURANS (MALAYSIA) BERHAD
BALANCE SHEET

<i>Financial Year Ending : June 30</i>	RM'000				Change (%)		
	2005	2004	2003	2002	2005	2004	2003
Cash and Deposits							
Cash and bank balances	36,472	34,336	19,025	28,991	6.2	80.5	(34.4)
Fixed deposits / money market	1,038,537	634,227	531,195	426,067	63.7	19.4	24.7
Investments							
Malaysian Government papers	42,968	49,219	54,258	65,626	(12.7)	(9.3)	(17.3)
Malaysian Government guaranteed loans	18,306	17,396	128,512	125,159	5.2	(86.5)	2.7
Cagamas Papers	140,086	165,161	30,011	37,035	(15.2)	450.3	(19.0)
Debentures, Bonds, Loan Stocks	138,044	118,878	119,359	119,840	16.1	(0.4)	(0.4)
Shares	118,302	243,216	115,206	152,194	(51.4)	111.1	(24.3)
Other Investments	23,193	23,303	21,961	22,211	(0.5)	6.1	(1.1)
Loans & Mortgages	42,582	49,689	31,223	53,750	(14.3)	59.1	(41.9)
Other Assets							
Outstanding premiums and agents' balances	45,599	100,987	82,005	66,489	(54.8)	23.1	23.3
Amount due from reinsurers/ceding companies	17,857	21,920	18,999	18,334	(18.5)	15.4	3.6
(Provision for doubtful debts)	(49,694)	(62,028)	(58,926)	(43,430)	(19.9)	5.3	35.7
Trade receivables	13,762	60,879	42,078	41,393	(77.4)	44.7	1.7
Other debtors, deposits and prepayments	45,212	18,636	151,156	72,745	142.6	(87.7)	107.8
Tax recoverable	0	10,136	6,042	0	n.m	67.8	n.m
Goodwill	0	0	31,104	32,507	n.m.	(100.0)	(4.3)
Property and equipment	253,921	241,394	245,437	245,633	5.2	(1.6)	(0.1)
TOTAL ASSETS	1,911,385	1,666,470	1,526,567	1,423,151	14.7	9.2	7.3
LIABILITIES							
Provision for outstanding claims	930,291	801,427	702,708	656,706	16.1	14.0	7.0
(Recoverable from reinsurers)	(59,918)	(51,835)	(54,882)	(52,862)	15.6	(5.6)	3.8
Net Outstanding Claims	870,373	749,592	647,826	603,844	16.1	15.7	7.3
Amount due to agents/insureds	3,547	2,594	5,095	2,708	36.7	(49.1)	88.1
Amount due to reinsurer and ceding companies	20,461	24,518	13,910	24,207	(16.5)	76.3	(42.5)
Provision for taxation	13,018	0	16,942	34,252	n.m.	(100.0)	(50.5)
Deferred taxation	6,079	5,730	7,121	4,459	6.1	(19.5)	59.7
Staff retirement benefits	9,938	8,040	6,836	5,520	23.6	17.6	23.8
Other creditors and accrued liabilities	32,080	36,745	38,869	32,794	(12.7)	(5.5)	18.5
Reserves for Unexpired Risks	464,440	426,488	360,857	333,517	8.9	18.2	8.2
Shareholders' Fund							
Share capital	200,000	200,000	200,000	200,000	0.0	0.0	0.0
Reserves	291,449	212,763	229,111	181,850	37.0	(7.1)	26.0
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	1,911,385	1,666,470	1,526,567	1,423,151	14.7	9.2	7.3

n.m - not meaningful

This communication is not an offer to sell or a solicitation of an offer to buy the securities mentioned. The information contained herein 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.

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MARC Analysis
Kurnia Insurans (Malaysia) Berhad

RATING SYMBOLS & DEFINITIONS –INSURANCE FINANCIAL STRENGTH 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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