

# Allianz Malaysia Berhad (12428-W)

Annual General Meeting 2013  
Queries from the Minority  
Shareholder Watchdog Group  
("MSWG")

Hotel InterContinental KL  
21 June 2013



Allianz 

## Queries from the Minority Shareholder Watchdog Group

Strategy and Financials	
<b>Question 1</b>	<p><b>Could the Board outline the major sections of the new Financial Services Act that will have an impact on the Company's financial and operation, how and the materiality?</b></p>
	<p><b>Answer:</b></p> <p>FSA will introduce more stringent requirements including subjecting holding company of a financial institution to capital and prudential requirements. (Part VII: S108 to S120)</p> <p>The existing holding company of the licensed insurers shall submit an application to Bank Negara Malaysia ("BNM") for it to be approved as a financial holding company within a period of twelve months from the effective date of the FSA. {S280(3)} FSA empowers BNM to impose prudential requirements on financial holding company (or its subsidiaries) (Part VII: S108 to S120), inter-alia, as follows:-</p> <ul style="list-style-type: none"> <li>◦ Group capital requirements and/or solvency standards;</li> <li>◦ Group corporate governance standards; and</li> <li>◦ Group-wide risk management standards (including requirements relating to intra group transactions and exposures).</li> </ul>

## Queries from the Minority Shareholder Watchdog Group

	Strategy and Financials
<p><b>Question 1 (Continue)</b></p>	<p>We do not anticipate any major issue for the holding company, AMB to comply with the provision of the Act for financial holding company under FSA.</p> <p>On business conduct requirements (Part VIII) which aims at consumer protection to promote fair and responsible professional dealings with consumers, the Group will be subjected to extensive laws/regulations and increasing regulatory oversight.</p> <p>The Group needs to have a stronger observation of corporate governance and business conduct especially stronger controls on sales compliance. BNM under the FSA( S234 &amp; S236) has very wide administrative powers to impose monetary penalty without resorting to prosecution via Public Prosecutor for breaches of laws or non-compliance of BNM's directives, etc. The penalties on breaches of the governing provisions could range from a fine of RM5 million to RM50 million with or without imprisonment of not exceeding 8 years, etc.</p>

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	Strategy and Financials
<b>Question 1 (Continue)</b>	<p>The Group needs to monitor compliance with the requirements of the Act and this will increase the legal and compliance cost of the Group.</p> <p>While the Group will proactively adopt various policies and procedures design to ensure compliance with the new Act, it cannot predict with certainty the interpretations or enforcement of the Act may have on the Group's financials and operations. Any non-compliance to the Act could result in penalties that adversely impact the earnings and reputation of the Group.</p>

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	Strategy and Financials
Question 2	<p data-bbox="382 354 1839 525"><b>The Gross Written Premium (GWP) growth for FY2012 was 14.5%, higher than 10.8% registered in FY 2011. What is the Board's expected GWP growth for this year in terms of value and percentage for the life and general insurance businesses respectively after taking cognizance of slower GDP growth this year?</b></p> <p data-bbox="382 574 533 602"><b>Answer:</b></p> <p data-bbox="382 674 1839 888">The Group will continue to build on the strong momentum gained in 2012 to drive business growth. The Group will continue to leverage on its strengths of providing both general and life insurance solutions to maintain our leading position in the market. In terms of top line growth, the Group will still aim to outperform the GDP growth and achieve a low double digit growth.</p> <p data-bbox="382 959 1839 1031">In the first Quarter 2013, total GWP for the Group grew by 16% against corresponding quarter last year (ALIM grew by 14% and AGIC grew by 17%).</p>

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	Strategy and Financials
Question 3	<p><b>Could the Board share with the shareholders the expected premium income, from the Distribution Agreement with HSBC Malaysia signed recently? Please provide a summary of the premium breakdown into various classes.</b></p> <p><b>Answer:</b></p> <p>In 2012, approximately 94% of ALIM's new business is contributed by its Agency sales with the remaining 6% contributed by Employee Benefit and Bancassurance sales.</p> <p>With the tie-up with HSBC Malaysia Berhad, bancassurance sales is anticipated to contribute approximately 15% of ALIM's new business in 2013 and Agency and Group business will account for the remainder 85%. For 2013, ALIM will market mainly protection and saving products through this channel.</p> <p>The tie-up allows ALIM to diversify its distribution channels, reduce dependency to a single distribution channel and widen its distribution network/ reach to more retail customers.</p>

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Strategy and Financials	
<b>Question 4</b>	<p><b>Note 8 of the Annual Report shows an item “Forward starting interest rate swap’ amounting to RM 8.95 million. Could the Board explain the nature of this transaction, the inherent risks of this investment and the expected rate of return?</b></p>
	<p><b>Answer:</b></p> <p>In life insurance business, we need to manage asset liability duration mismatch due to the lack of long duration assets while liabilities are of long term in nature. With the forward starting interest rate swap (“FSS”), the duration of assets can be extended to close the duration gap with the liabilities. The derivative we entered here is the 10-year Forward Starting Swap starting in 5 years time. The rate locked in is 4.91%. The FSS is a derivative used to hedge against the rise in liabilities value due to the fall in interest rate as a result of the asset liability duration mismatch.</p>

## Queries from Minority Shareholder Watchdog Group

	<b>Corporate Governance</b>
<p><b>Question 5 (Continue)</b></p>	<p><b>In accordance with the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) Recommendation 3.3, the Board must provide justification and seek shareholders’ approval in the event it retains an independent director who has served in that capacity for more than nine (9) years.</b></p> <p><b>We noted that one of the directors who has served 11.8 years based on the disclosure in the Annual Report as an independent director is now seeking re-election as an independent director. We would like to seek the Board’s explanation on the non-adherence of MCCG 2012.</b></p> <p><b>Answer:</b></p> <p>The Board of AMB adopts the Recommendation 3.3. of MCCG 2012 which states that the tenure of an Independent Director should not exceed a cumulative term of 9 years.</p> <p>As disclosed in our Statement on Corporate Governance, none of our Independent Directors has exceeded a cumulative term of 9 years.</p>



## Queries from the Minority Shareholder Watchdog Group

	Corporate Governance
<p><b>Question 5 (Continue)</b></p>	<p>The Director concerned as referred to in MSWG’s letter is our Chairman, Y. Bhg. Tan Sri Razali Ismail and the tenure of 11.8 years is made up of his appointment as an Independent Non-Executive Director and Non-Independent Non- Executive Director in AMB.</p> <p>Y. Bhg. Tan Sri Razali Ismail was appointed as an Independent Non-Executive Chairman of AMB on 25 September 2001.</p> <p>On 2 July 2002, he was re-designated to Non-Independent Non-Executive Chairman as a result of his disqualification as an Independent Director of AMB pursuant to the requirements in item (g) of the definition of Independent Director in Paragraph 1.01 of the Listing Requirements.</p> <p>With the approval from the Board, Y. Bhg. Tan Sri Razali was subsequently re-designated as an Independent Director of AMB on 26 November 2009 following his compliance with the definition of Independent Director as prescribed by the regulators.</p> <p>Accordingly, the cumulative term of Y. Bhg. Tan Sri Razali as an Independent Director of AMB as at 21 June 2013 is approximately 4 years 4 months.</p>