

chairman's statement



On behalf of the Board of Directors, I am pleased to present to the Shareholders the Annual Report and Audited Financial Statements of the Group and of the Company for the financial year ended 31 March 2009.



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General Overview

The Malaysian economy registered a growth of 4.6% in 2008 driven mainly by strong domestic demand which expanded by 6.9% during the year. This growth was achieved amidst the international financial turmoil and sharp deterioration in global economic environment. While external demand was strong in the first half of 2008, the sharp deterioration in the global economic conditions as well as major correction in commodity prices in the second half led to a contraction in Malaysia's export performance in the latter part of the second half year. The headline annual inflation rate, as measured by the Consumer Price Index (CPI), increased from 2% in 2007 to 5.4% in 2008, mainly due to the sharp increase in global food and fuel prices.

In 2008, the general insurance and takaful businesses, recorded a combined growth of 5.5% to RM11.5 billion in gross premium/contribution, which was mainly driven by the expansion in the fire segment. However, the operating profit of these sectors declined by 44.5% to RM0.7 billion affected by the lower investment income and higher net claims incurred. This arose mainly from motor claims which recorded a higher claims ratio of 84.2% (2007: 79.6%) while total claims ratio remains high at 64.9% (2007: 66.3%). Nevertheless, both sectors recorded a stronger solvency position of RM16.6 billion as compared to RM11.7 billion in 2007 while attaining

an average Capital Adequacy Ratio (CAR) of 187.6%. The CAR level is well above the minimum Bank Negara Malaysia (BNM) requirement of 130%, as stipulated under the BNM's Risk Based Capital Framework which came into effect on 1 January 2009.

Today, there are 26 general insurers and 8 takaful operators registered in Malaysia. As for the general reinsurance business, the number of reinsurers remains at 5 while for retakaful business, there are 2 full-pledged retakaful operators and one branch operation.



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Overview of Group's Performance

For the year under review, the Group had recorded a total revenue of RM1.2 billion, as compared with RM978.6 million in the preceding year. The 20% increase in revenue was largely attributed to the increase in the gross premium written by the reinsurance subsidiary and the increase in wakalah fees earned by the takaful and retakaful subsidiaries.

The Group however registered a lower pre-tax profit of RM40.5 million as compared to RM194.0 million in the previous year. The higher pre-tax profit recorded in the previous year was mainly contributed by the gain from the disposal of MNRB's 3.24% direct equity interests in Malaysian Oxygen Berhad. The total net profit attributable to the said disposal was RM75.4 million. The lower pre-tax profit this year was also due to the unfavourable financial climate especially in the later part of the financial year which resulted in lower investment income. In addition, the reinsurance segment of the Group experienced exceptionally large losses provisions, with loss ratio deteriorated from 60.7% to 64.2% this year.

With this background, MNRB Group recorded a lower Profit After Tax (PAT) and Earnings Per Share (EPS) of RM26.3 million and 12.3 sen per share respectively for the financial year ended 31 March 2009, as compared to RM170.4 million and 80.3 sen per share respectively, in the previous year.

Malaysian Reinsurance Berhad (Malaysian Re)

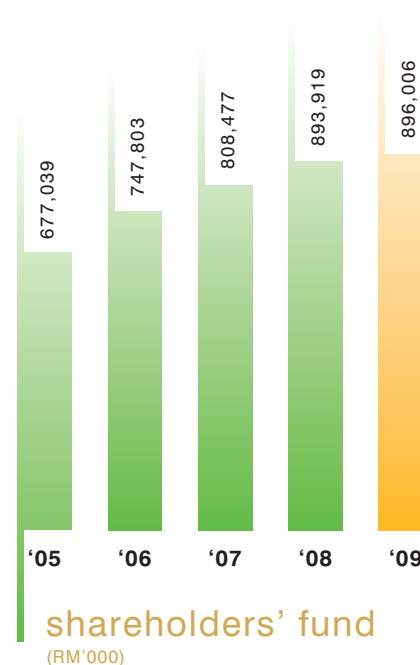
For the financial year ended 31 March 2009, Malaysian Re registered a 20% increase in gross premium from RM784.3 million last year to RM941.0 million this year. This achievement is mainly contributed from the increase in the inward overseas business which now constitutes 23% of total gross premium as compared to 18% in the previous year.

The incurred loss ratio however has deteriorated from 60.7% to 64.2% this year. This deterioration was mainly due to adverse claims incurred, with exceptionally large losses provision. Examples of these large losses events were the heavy snow storm, flood and earthquake in China, fire damage in Dubai and flood in Jakarta. At the same time investment income has reduced from RM71.4 million to RM66.6 million this year at the back of the bearish investment climate.

As a consequence, the pre-tax profit of Malaysian Re for the year was lower at RM55.3 million as compared to RM110.3 million recorded in the preceding year whilst the profit after tax was RM40.9 million as compared to RM85.1 million reported last year.

On 29 April 2009, MNRB had increased its investment in Malaysian Re by RM20.0 million, satisfied by the issuance of 20.0 million new ordinary shares of

RM1.00 each in Malaysian Re at an issue price of RM1.00 per share. With the above subscription, the issued and paid-up capital of Malaysian Re has increased from RM480.0 million to RM500.0 million, comprising 500,000,002 ordinary shares of RM1.00 each.



Takaful Ikhlas Sdn. Bhd. (Takaful IKHLAS)

The gross contribution income of Takaful IKHLAS has shown tremendous increase from RM428.1 million to a record RM580.5 million, surpassing its initial target of RM520 million. This is indeed a proud achievement, given that Takaful IKHLAS only commenced its

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operation in 2003 with an initial gross contribution income of RM6.5 million for the financial year ended 31 March 2004. As at 31 March 2009, the portfolio of Takaful IKHLAS based on gross contribution was approximately 76:24 between Family Takaful and General Takaful, respectively.



Takaful IKHLAS recorded an increase of 34.7% in profit before tax and zakat to RM13.7 million, from RM10.2 million in the preceding year. However, the profit after taxation and zakat decreased to RM8.7 million from RM11.4 million recorded in the preceding year, due to higher taxation charge for the year as the brought forward losses allowance had been fully utilised in the previous year.

As at 31 March 2009, Takaful IKHLAS has issued an estimated number of 2 million policies and has 7,892 agents for both Family and General Takaful. To date, Takaful IKHLAS has introduced more than 91 products in its portfolio with a comprehensive range of Family, Group and General Takaful Plans and Riders for individuals and business enterprises.

MNRB Retakaful Berhad (MRT)

Being the country's first retakaful company, MRT has progressed significantly during the financial year under review. Despite only commencing business on 1 August 2007, MRT has achieved a commendable gross contribution of RM23.2 million as compared to RM10.5 million recorded in the preceding 8 months period. During the financial year under review, MRT has registered a net profit of RM789,000 as compared to RM1.9 million recorded in the preceding period. At this early stage of its operation, MRT has invested substantial amounts for promotion, branding and staff development which is essential to help build a strong foundation for the Company and set it on the right track towards the goal of establishing itself as a premier retakaful provider.

Malaysian Re (Dubai) Ltd. (MRDL)

For the financial year ended 31 March 2009, MRDL recorded a gross premium of RM38.7 million, underwritten on behalf of Malaysian Re, as compared to RM24.0 million recorded last year. This represents a commendable 60% improvement from previous year and indicates the continuous success of the effort to tap the opportunities available in the Middle East and North African (MENA) region.

As at 31 March 2009, MRDL's paid-up capital stands at USD2.0 million following an additional capital injection of USD1.74 million from MNRB.

Report on Headline KPIs Achievement

The MNRB Group, had, on 30 May 2008, announced the following 2 targets to be achieved as its Headline Key Performance Indicators (KPIs) for the financial year ended 31 March 2009:

- i) Return on Equity (ROE) of 12.4%; and
- ii) Revenue Growth of 12.1%

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The report on the achievement of the above Headline KPIs is as follows:

i) ROE

The Group recorded a lower ROE of 2.9% for the financial year ended 31 March 2009 as compared to the target of 12.4%. The shortfall from the target was mainly due to the lower underwriting contributions from the Group's reinsurance operation as a result of higher claims incurred, as well as lower investment income.

ii) Revenue Growth

For the financial year ended 31 March 2009, the Group recorded revenue growth of 20% as compared to the target of 12.1%. The higher revenue was a result of the increase in the gross premium written by the

reinsurance subsidiary and the increase in the wakalah fees earned by the takaful and retakaful operators.

With the new KPIs set in the 2010 corporate scorecard, we aspire to achieve positive results as we continue to bring the Group forward.

Progress & Achievements

Since the date of the last report, the Group has achieved a series of strategic milestones. It is my pleasure to report that Malaysian Re has been reaffirmed a Financial Strength Rating (FSR) of "A-" (Excellent) and an Issuer Credit Rating (ICR) of "a-" by A.M. Best on 20 November 2008. On 9 June 2009, Malaysian Re has also been reaffirmed an Insurer Financial Strength Rating of "A-" by Fitch Ratings. The outlook on both ratings remains Stable.

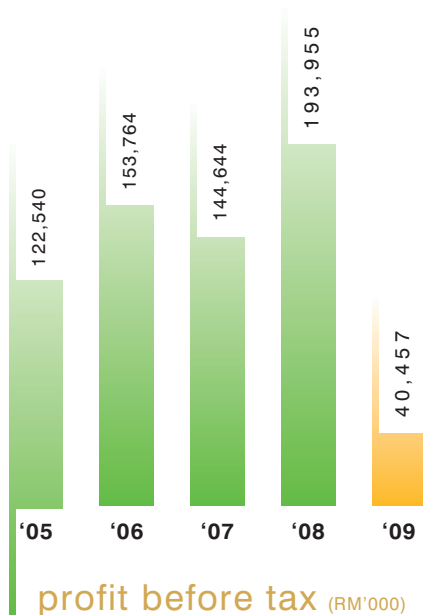
Our retakaful subsidiary, MRT, has also been assigned an Insurer Financial Strength Rating of "BBB+" with a stable outlook from Fitch Ratings on 29 July 2008.

The security ratings and the stable outlook assigned by these reputable international rating agencies is a testament to the financial strength of our subsidiaries. It also allows both companies to further expand their overseas business portfolio especially into regions which imposes a minimum security rating as a prerequisite in doing business.

In addition to the above, it gives me great pride to report that during the financial year under review, our takaful subsidiary, Takaful IKHLAS had won the award of the BrandLaureate-SMEs Chapter Award 2008 for "Best Brands in Product Branding, Consumer – Healthcare Insurance". This is indeed an admirable recognition of our commitment in providing the best products and services to our customers.

Dividends

For over 35 years, the MNRB's annual dividend payout has been excellent, placing the Company as one of the superior dividend-paying counters on Bursa Malaysia Securities Berhad. MNRB has managed to constantly reward its shareholders with a

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remarkably high return on equity and correspondingly, a high dividend payout rate. The Company had on 30 May 2008 declared a Dividend Policy that will pay the shareholders a consistent gross yearly dividend of between 40% to 75% of its net profit for that financial year subject to various factors. These factors include availability of cash reserves, maintaining acceptable level of gearing, return on equity and retained earnings, and other requirement to retain cash for future expansion and/or investments.

For the year under review, MNRB had on 24 December 2008, paid an interim dividend of 10%, less 25% tax which represents 81.1% of the Group's net

profit for the financial year ended 31 March 2009. Under these circumstances, the Board do not recommend the payment of any final dividend in respect of the financial year ended 31 March 2009.

Prospect

As reported in the BNM Annual Report 2008, the global economy is not expected to record any growth in 2009 (2008: 3.4%) as the recession in the advanced economies is expected to contract further. Being a highly open economy, Malaysia has already been impacted by the adverse global environment and is expected to experience the full impact of the global downturn in 2009.

Similarly, the domestic insurance and takaful sectors will also be affected by the potential lower demand for protection and related products in a highly competitive industry. In particular, the expected decline in vehicle sales will negatively impact the motor insurance and takaful business which constitute 45% of gross insurance premiums in 2008. In addition, there is also a risk of moral hazard claims arising from the current adverse economic condition.

However, the Government has put in place several policy measures in mitigating the impact of the global downturn to the national economy. Two economic stimulus package were announced, the first on 4 November 2008 amounting to RM7 billion while the second stimulus package totaling RM60 billion was announced in early 2009. We are confident that the effectiveness of the policy measures introduced by the Government combined with the Government leadership under our new Prime Minister would eventually help the country in mitigating the impact of the global slowdown.

Moving forward, MNRB remains upbeat of its prospects as we believe that business opportunities available to the Group in the forthcoming years are many and we intend to take full advantage of these opportunities. It is also crucial that we continue to be prudent in our capital management strategy. This is in order to provide us with the flexibility to remain agile during this challenging operating environment and allow us to capitalise on any opportunity that may emerge.



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Corporate Social Responsibility (CSR) Initiatives

MNRB believes in balancing and integrating economic performance with social responsibility to meet the needs of all its stakeholders. In this connection, MNRB together with its subsidiaries had continued to carry out various CSR initiatives throughout the financial year, which included awarding of scholarships, updating professional skills through market trainings, in-house environmental campaigning and sponsorship of industry events.

For the financial year under review, we had in fact contributed an amount of RM700,000 to the MNRB Scholarship Fund as our continuous commitment towards human capital development and at the same time to support the deserving students to pursue their education in the insurance and takaful related fields. The MNRB Scholarship Fund was established in 1998 and to date, the total contribution by MNRB to this fund amounted to RM3.2 million.

Welcome

We had the pleasure of welcoming Dr. Syed Musa Syed Jaafar Alhabshi to the Group as the Independent Non-

Executive Director of MRT effective 23 July 2008. We are confident that Dr. Syed Musa, with his vast experience in Islamic Finance will contribute positively to the future growth of MRT and the Group.

Acknowledgements

On behalf of the Board, I would like to extend my appreciation and gratitude to all our business partners, ceding companies and intermediaries, Bank Negara Malaysia and the local insurance and takaful associations for their continued support, trust, cooperation and contributions.

I would like to also take this opportunity to express our sincere appreciation and gratitude to Permodalan Nasional Berhad (PNB) and all the other shareholders of the Company for their continuous support, invaluable guidance and most of all, the confidence given to the Group. Rest assured that your Board will continue to make a concerted effort to create and build on shareholders' value.

I wish to also thank my fellow Board members for their commitment, contribution and wise counsel. MNRB is indeed fortunate to have such

committed individuals to serve on its Board and I look forward to their continuous support and dedication in the coming years.

To the Management team led by Encik Anuar Mohd Hassan and all MNRB Group employees, please accept my heartfelt gratitude for your dedication and hard work that you have all exhibited to make the Group what it is today. Having faced the challenges of the past years, let us double our efforts and strive further to face even greater challenges ahead, in order to realise our aspiration to build a respectable Group that enjoys the pride of our stakeholders.

On behalf of the Board

Sharkawi Alis
Chairman

30 July 2009