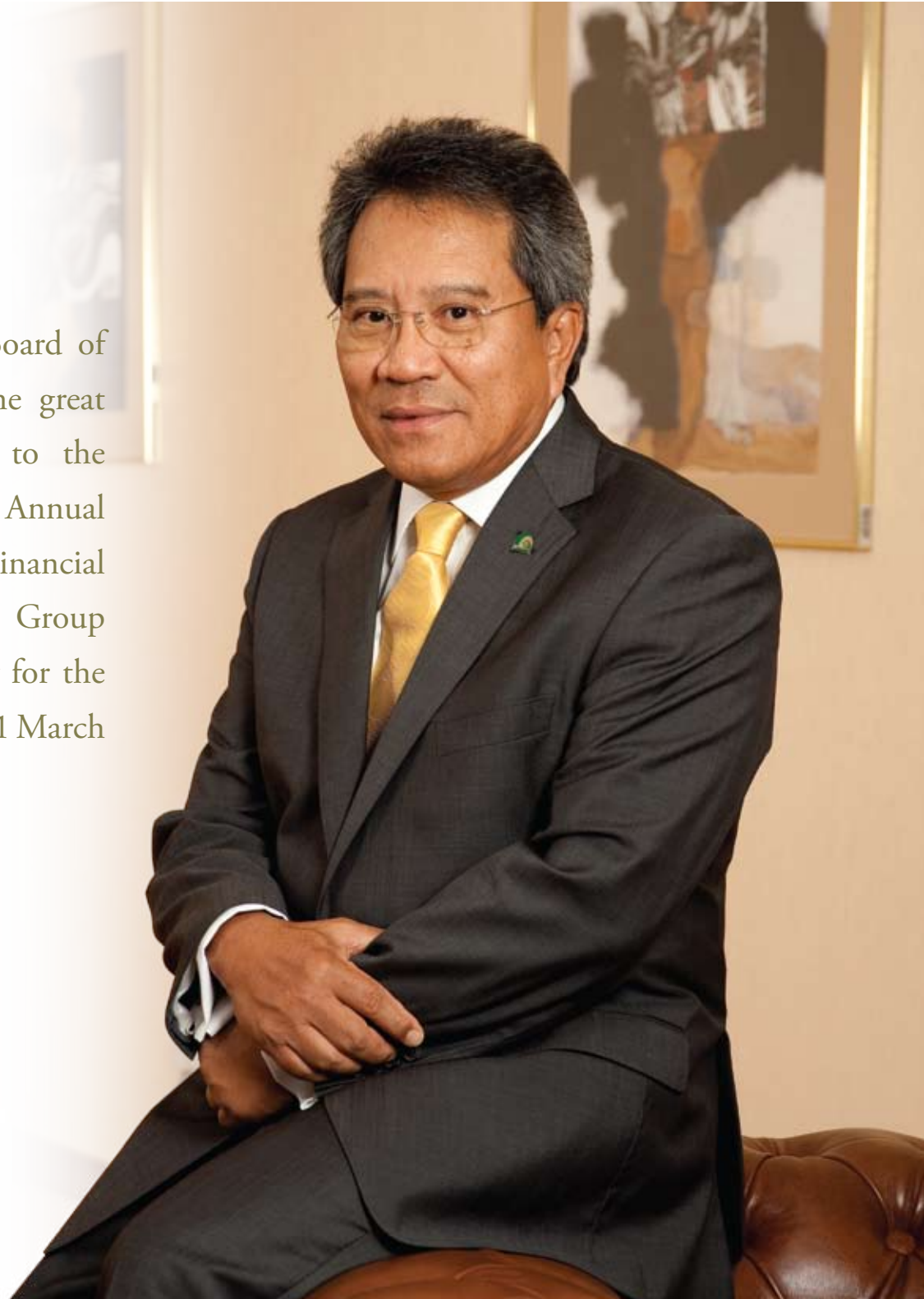


chairman's statement

“On behalf of the Board of Directors, it gives me great pleasure 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 2010.”



chairman's statement

GENERAL OVERVIEW

During the year under review, the Group was operating in a climate of global recession. Despite this challenge, the Malaysian economy fared better than expected, posting an overall Gross Domestic Product (GDP) contraction of -1.7% against an earlier projected GDP contraction of -3%. This was attributed to the Government's multi-billion Ringgit stimulus packages in March 2009 and the year before, as well as the strengthening of external demand. Supported by strong domestic demand and global economic recovery, the Malaysian economy rebounded with a robust growth of 10.1% during the first quarter of 2010, the highest since the first quarter of 2000. Headline inflation meanwhile, averaged 0.6% in 2009 as inflationary pressure in Malaysia moderated substantially, in line with the global recovery momentum. Unemployment rate on the other hand, stood at 3.7%, lower than the initial forecast of 4.5%.

In manifesting the recovery, Bursa Malaysia Berhad (Bursa Malaysia) showed better trading activities and a resurgence of local investors' participation in the local market during the year, in line with the improved global market optimism from the second quarter onwards. Bursa Malaysia recorded 14 new Initial Public Offerings (IPOs) which generated RM12.04 billion in total funds raised during 2009, compared to RM1.3 billion in 2008. The Malaysian Ringgit, which was very much influenced by external factors, also strengthened due to the positive market reaction to the second stimulus package announced on 10 March 2009. Investors' confidence remained cautiously optimistic as the value of Ringgit appreciated against the regional and other major currencies, except for some fluctuations from mid-October to December 2009.

Reflecting the improved economic condition, the local insurers and takaful operators recorded an increase in total gross direct premiums/contributions from RM11.4 billion in 2008 to RM12.8 billion in 2009. The growth was driven mainly by the ordinary life segment for the life and family takaful industry and a broad-based demand for the general sector. The improved performance of the general business was attributed to lower motor claims ratio of 60.8% (2008: 62.0%). However, the marine, aviation and transit business, contractors all risks and engineering sectors were affected by the difficult business environment. The operating profit of the general segment for 2009 improved by 169.5% to RM2.2 billion, driven mainly by the exceptionally higher capital gains on investments which amounted to RM470.9 million (2008: RM175.1 million).

From the Group's standpoint, the number of players currently operating in the market; twenty-three (23) general insurers and eight (8) takaful operators, are provided with sufficient share of market opportunities to capture, considering the lion share of the market still untapped. For the general reinsurance business, the number of reinsurers remains at five (5), while retakaful business has two (2) full-fledged operators and one (1) branch operation.

OVERVIEW OF GROUP'S PERFORMANCE

Amidst the challenging background, the Group had, during the year under review, successfully recorded an improved set of financial results, principally attributed by leaner management of its business units, and more focused strategic approach.

The Group recorded a total revenue of RM1.3 billion, compared to RM1.2 billion in the preceding year. The 14.6% increase in revenue was largely

attributed to the increase in gross premium written by our reinsurance subsidiary, Malaysian Re, higher investment income and the increase in wakalah fees earned by our takaful and retakaful subsidiaries, namely, Takaful IKHLAS and MRT.

The Group also registered higher pre-tax profit of RM75.4 million compared to RM40.5 million in the previous year. The higher pre-tax profit was contributed by an increase in the share of profit from the reinsurance associate at RM14.3 million, compared to share of losses amounting to RM5.9 million in the preceding year and higher investment income. In addition, the effect of release in unearned premium reserves by Malaysian Re also contributed to the increased pre-tax profit.

The increase in the pre-tax profit is however, partly offset by the provision for impairment loss of RM44.5 million made on investment in Principle Insurance Holdings Limited, United Kingdom (PIHL). MNRB has decided to allocate for this provision due to the uncertainty surrounding PIHL as its subsidiary, Principle Insurance Company Limited (PICL), had ceased issuing new and renewal of takaful policies. In addition, PIHL had also been unsuccessful in raising the mandatory capital top-up requirement to meet the United Kingdom's Financial Service Authority's requirement. PIHL had also announced on 28 April 2010, the conditional sale of its subsidiaries, PICL and Principle Marketing Services Limited to a third party, for an undisclosed amount.

Against this backdrop, the Group recorded a profit after tax of RM48.2 million and Earnings Per Share of 22.6 sen for the financial year ended 31 March 2010, compared to RM26.3 million, and 12.3 sen respectively, in the previous year.

chairman's statement

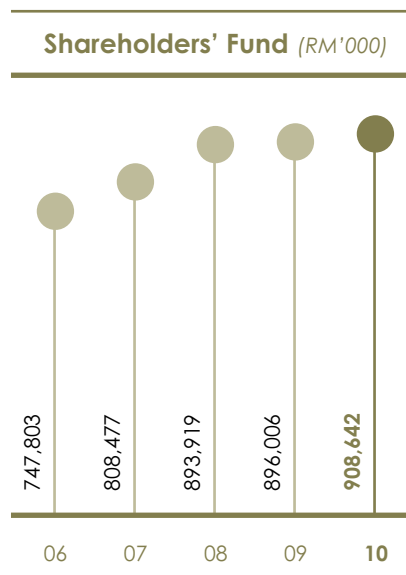
Malaysian Reinsurance Berhad (Malaysian Re)

For the financial year ended 31 March 2010, Malaysian Re registered a 16% increase in gross premium, from RM941.0 million last year, to RM1.1 billion this year. The increase that was recorded across all classes of business was the result of a more focused strategic approach, which enhanced its business portfolio. Domestic demand made up 72% of Malaysian Re's total business volume during the year, while the remaining 28% came from overseas business. Voluntary Cession (VC) accounted for 42% of the total business volume, while the remaining 58% was contributed by non-VC business.

The loss incurred ratio however, has deteriorated from 64.2% previously to 67.7% this year, attributable mainly by the adverse claims experience from Marine and Motor classes. Malaysian Re also suffered heavy losses from catastrophic events, such as the Istanbul flood in Turkey, the Padang earthquake in Indonesia, the Chile earthquake and the Ketsana Typhoon in the Philippines.

For the year under review, Malaysian Re registered a total investment income of RM76.1 million. This represents an increase of RM35.8 million or 89%, compared to RM40.2 million last year. The increase was mainly due to improvements in the performance of Bursa Malaysia, resulting in the recognition of a RM18.6 million gain on disposal of shares as opposed to the RM25.1 million losses recognised in the previous year. This consequently, had enabled Malaysian Re to record a higher pre-tax profit of RM113.0 million for the year under review, compared to RM55.3 million achieved in the preceding year. Profit after tax stood

at RM88.6 million this year compared to RM40.9 million in the previous year.



Takaful Ikhlas Sdn Bhd (Takaful IKHLAS)

The gross contribution income of Takaful IKHLAS increased from RM580.5 million in the previous financial year to RM614.7 million during the year under review. Family Takaful accounted for 64.7% of the total gross contribution compared to 75.9% recorded in the previous year, while the remaining 35.3% was derived from the General Takaful as against 24.1% in the preceding year.

In February 2010, Takaful IKHLAS moved to its new Head Office, the IKHLAS Point, at Bangsar South, Kuala Lumpur. Takaful IKHLAS had invested RM87.5 million for the two blocks of new buildings with total floor area of approximately 100,000 sq. ft. A revaluation conducted on both buildings by an independent valuer during the year, had seen their value appreciated to RM110.0 million.

During the year, Takaful IKHLAS registered an increase in profit before tax and zakat of RM14.9 million, compared to RM13.7 million in the preceding year. Consequently, the company's profit after tax and zakat, increased to RM9.5 million, from RM8.7 million recorded in the preceding year.

As at 31 March 2010, Takaful IKHLAS registered a total of 1,722,580 participants (policy holders) and 7,633 agents nationwide, for both Family and General Takaful. To-date, Takaful IKHLAS has introduced more than 90 products in its portfolio, with a comprehensive range of Family, Group and General Takaful Plans and Riders, for both individuals and business enterprises. As at the end of the financial year, Takaful IKHLAS has a total of 11 branches nationwide.

MNRB Retakaful Berhad (MRT)

MRT continued to progress significantly during the financial year under review, where total gross contribution almost doubled to RM45.4 million, compared to RM23.2 million recorded in the preceding year. Of this total, RM25.6 million or 68.6% was derived from domestic market. General Retakaful accounted for 82.2% of the total volume, while the remaining 17.8% came from Family Retakaful.

Overall, MRT registered a significant increase in its profit after tax and zakat, from RM789,000 in the previous year to RM4.5 million during the year.

chairman's statement

Malaysian Re (Dubai) Ltd (MRDL)

MRDL registered a higher gross premium of RM44.6 million, underwritten on behalf of Malaysian Re, as compared to RM33.3 million recorded last year. The improved performance indicates our continuous success in tapping the opportunities in the Middle East and North Africa (MENA) region, despite the adverse global economic environment.

Report on Headline Key Performance Indicators (KPIs) Achievement

The Group had, on 27 May 2009, announced the following targets as its Headline KPIs for the financial year ended 31 March 2010:

- i. Return on Equity (ROE) of 3.2%; and
- ii. Revenue Growth of 8.5%.

I am very pleased to report that the Group recorded a higher ROE of 5.4% for the financial year ended 31 March 2010, compared to the target of 3.2%. The higher ROE was mainly contributed by Malaysian Re and the higher share of profit from its reinsurance associate.

The Group also recorded a revenue growth of 14.6%, compared to the target of 8.5%. The higher revenue was contributed mainly by the increase in gross premium written by Malaysian Re, and the increase in the wakalah fees earned by Takaful IKHLAS and MRT.

With the new KPIs set for the 2011 Corporate Scorecard, we aspire to achieve better results as we continue to push the Group forward.

PROGRESS & ACHIEVEMENTS

Ratings

It is my pleasure to report that A.M Best had, on 13 November 2009, reaffirmed Malaysian Re's Financial Strength Rating (FSR) of 'A-' (Excellent) and, an Issuer Credit Rating (ICR) of 'a-'. This is in addition to the Insurer Financial Strength Rating of 'A-' assigned by Fitch Ratings on 9 June 2009. The outlook on both ratings remains stable.

As mentioned in our previous Annual Report 2009, MRT was also assigned an Insurer Financial Strength (IFS) Rating of "BBB+" by Fitch Ratings on 28 July 2009. The outlook is stable.

The security ratings and the stable outlook assigned by these reputable international rating agencies would allow both companies to further expand their overseas business portfolio; especially into regions which impose a minimum security rating as a prerequisite in doing business.

Awards

In addition to the above, it gives me great pride to report that during the financial year under review, our takaful subsidiary, Takaful IKHLAS, has won several awards, namely:

- Best Takaful Provider – Euromoney Islamic Finance Awards 2010;
- Best Takaful/Retakaful Provider (second consecutive win) – Islamic Finance News Polls Awards 2009;
- Best Brands in Product Branding, Consumer Healthcare Insurance – The BrandLaureate: SMEs Chapter Award 2009; and
- Best Brands in Service-Islamic Protection Services – The BrandLaureate: SMEs Chapter Award 2009, Corporate Branding.

The above awards are indeed a testimony to our commitment in providing the best products and services to our customers.

Total Assets (RM'000)



chairman's statement

DIVIDENDS

While we continuously strive to increase our shareholders' value, it is equally important to maintain the long term sustainability of their investments, especially during challenging situations, as indicated by the uncertain global economic outlook and the impending impact of the financial service sector liberalisation, on our industry.

In the wake of this liberalisation, competition in the local insurance industry is also expected to increase. Foreign players with stronger capital base, larger international network, and wider expertise are anticipated to make their forays into the Malaysian market, which eventually may affect our current leading position in the country.

In addition, with effect from 1 January 2009, BNM had introduced a more stringent capital requirement under its Risk-Based Capital (RBC) framework. Under this framework, all insurers and reinsurers licensed under the Insurance Act, 1996 are required to maintain a capital adequacy level that commensurate with their risk profiles. Our reinsurance subsidiary, Malaysian Re, is required to observe this new capital requirement including having sufficient buffer to reflect its own risk profiles and risk management practices. In addition, Malaysian Re is also expected to provide additional capacity to absorb unexpected losses beyond those covered under the framework.

The Group must, with these new developments, aggressively move into the next phase of growth; positioning itself to be as closest as possible, if not at par with its potential major foreign competitors. As such, it is our top priority to build a much stronger capital reserves to continue with this critical challenge.

Against this background and despite the improved financial performance, regrettably, the Board is not in the position to recommend the payment of any dividend in respect of the financial year ended 31 March 2010. Nevertheless, the Board will continue to add value, while keeping prudence and fulfil our commitment to provide better returns to your dedicated investment in the forthcoming years.

CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

The development of human capital remains a priority within the Group. In this respect, during the year, we continued with our various human capital development programmes, which are designed to enhance the capabilities and competencies of our people. At the same time, the Group nurtures its future leaders for continuous sustainability of our organisation. Steps are also taken to ensure retention and continuity of skills development through strategic placements of seeding positions and succession planning.

For the financial year under review, the size of the MNRB Scholarship Fund had increased to RM5.1 million. To-date, the Fund had disbursed a total of 262 scholarships to deserving students. This scholarship award reflects our unwavering commitment towards championing human capital development. We hope that this effort would produce larger number of high calibre insurance professionals, especially in the field of actuary, to address the shortage of qualified manpower in our local insurance industry.

Understanding the importance of creating rapport with the communities where it operates, the Group continues to celebrate Malaysian major festivals with these people to foster better

relationship and extend our warmest goodwill. Through personal involvement of our employees in these activities, it helps us enhance the trust of our audience towards the organization as a responsible corporate citizen.

Profit Before Tax (RM'000)



chairman's statement

21st Federation of Afro-Asia Insurer & Reinsurers (F.A.I.R.) Conference

Malaysian Re and its associate company, Labuan Re were given the honour by F.A.I.R to jointly host the prestigious 21st F.A.I.R Conference which was held at the Mandarin Oriental Hotel, Kuala Lumpur, from 19 to 23 October 2009. More than 600 international and local participants, including leaders and experts in the insurance and reinsurance industry attended this prestigious event. Themed "Insurance & Reinsurance Environment in the AFRO-Asian Region in the Wake of the Economic and Financial Crisis", the Conference was officiated by Yang Berbahagia Tan Sri Dato' Seri Dr. Zeti Akhtar Aziz, the Governor of Bank Negara Malaysia. Yang Amat Berbahagia Tun Dr Mahathir Mohamad, who was the Honorary Speaker, also delivered a talk on "Geopolitical Change and Business Environment – Its Relevance to the Emerging Economies of Asia and Africa".

PROSPECT

As reported in the BNM Annual Report 2009, the Malaysian economy is projected to grow by 4.5% to 5.5% in 2010, against a gradual, albeit uncertain global economic recovery and a strengthening demand. The finance and insurance sectors are also expected to register higher growth, supported mainly by the finance segment, which would benefit from increased bank lending activities and higher fee income as the economic recovery gathers momentum. In the insurance and takaful segments, improvements in salaries and wages and enhanced financial literacy would contribute to the increase in demand for the life insurance and family takaful products, while the anticipated increase in the sale of motor vehicles would benefit the general insurance business.

The Government has taken new measures to make Malaysia more competitive regionally and globally, with the recent unveiling of the New Economic Model (NEM) on 30 March 2010 by the Prime Minister.

While there appears to be signs that the country is on the path of economic recovery, the uncertain conditions arising on the global front, such as the debt crisis in Greece and some other countries in Europe, will continue to pose challenges for the Group. Nevertheless, with the strong foundation that we have created throughout the Group, I am confident that we can successfully meet the challenges ahead.

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 the 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 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 also wish to thank my fellow Board members for their commitment, contribution and wise counsel. MNRB is indeed fortunate to have such committed individuals to serve in its Board and I look forward to their continuous support and dedication in the coming years.

I wish to also express my heartfelt gratitude to Encik Anuar Mohd Hassan, and all MNRB Group employees for their dedication and hard work that had led the Group to where it is today. Having faced the challenges of the past years, let us now 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

1 September 2010