

# CHAIRMAN'S STATEMENT

**On behalf of the Board of Directors, it gives me a 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 2011.**

## GENERAL OVERVIEW

The year 2010 was a challenging year marked by the looming global financial crisis and credit crunch in certain economies of the world. This was exacerbated with uncertainties in the global environment, triggered by the ongoing geopolitical tensions and aftershock impacts of natural catastrophes.

In Asia, the emerging economies were less affected by the global crisis. Malaysia, which registered a contraction of -1.7% in Gross Domestic Product ("GDP") a year ago, posted an impressive rebound of 7.2% in 2010; which was spearheaded by robust domestic demand, increase in exports and supportive fiscal and monetary policies.

Investors' confidence in the local stock market remained strong as evidenced by Bursa Malaysia Securities Berhad's ("Bursa Malaysia") record of 29 new Initial Public Offerings ("IPOs") which generated RM19.9 billion in total funds raised, as compared to RM12.0 billion in 2009. Although very much influenced by external factors, the consistent current account surplus and net portfolio inflows had enabled Ringgit Malaysia to strengthen its position throughout the year in comparison to the US Dollar, Euro and Pound Sterling.

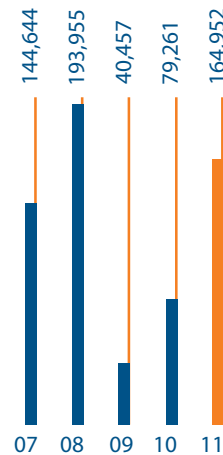


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Bank Negara Malaysia ("BNM") had, during the year, announced the issuance of new family takaful licences to four joint ventures between local and foreign entities. To-date, three of these joint ventures have commenced their operations. Although competition is expected to intensify in the future, with the sizeable potential business still untapped, we are optimistic of maintaining our leadership position in the market.

To place the insurance and takaful industry on a firmer footing, BNM had also introduced the Guidelines on Takaful Operational Framework ("TOF") and Syariah Governance Framework. Both were designed to better regulate the management of takaful and retakaful companies, these frameworks, we believe, will benefit the industry in the long run.

During the year, the Group adopted the FRS 4 on Insurance Contracts, which had a significant financial impact on the takaful and retakaful subsidiaries. The adoption of FRS 4 however, had minimal impact on the reinsurance subsidiary that had met most of its requirements when adopting the Risk Based Capital Framework ("RBC") in 2009.



**Profit Before Tax**

## OVERVIEW OF GROUP'S PERFORMANCE

For the year ended 31 March 2011, the Group recorded a total revenue of RM1.46 billion, an increase of 9.1% compared to RM1.34 billion recorded in the preceding year. The improved revenue was attributable to the increase in gross premium written by the reinsurance subsidiary, Malaysian Reinsurance Berhad ("Malaysian Re") and higher wakalah fees earned by the takaful and retakaful subsidiaries namely, Takaful Ikhlas Sdn Bhd ("Takaful IKHLAS") and MNRB Retakaful Berhad ("MRT"), respectively.

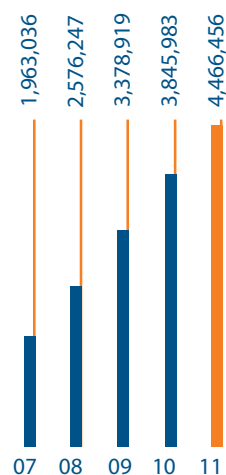
Favourable business conditions had enabled the Group's profit before zakat and taxation to surge from RM79.3 million previously to RM165.0 million during the year under review. This significant increase in profit of 108.1% during the year was mainly due to lower claims incurred and higher capital gain realised from investments by Malaysian Re.

In comparison, previous year's results were also affected by the one-off provision for impairment loss made on the Company's investment in Principle Insurance Holdings Limited, United Kingdom ("PIHL").

The Group's profit before zakat and taxation during the year under review was somewhat impacted by a provision for impairment loss of RM14.6 million on the Qard by MRT to its general retakaful fund.

Against this backdrop, the Group registered a record profit after tax of RM122.9 million for the financial year ended 31 March 2011, an increase of 142.4% against RM50.7 million recorded last year. Group Earnings Per Share, as a result, increased by more than doubled from 23.8 sen previously to 57.7 sen during the year under review.

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**Total Assets**

## Malaysian Reinsurance Berhad

For the financial year ended 31 March 2011, Malaysian Re registered an increase in total gross premium written by 7.4%, from RM1.09 billion recorded last year to RM1.17 billion this year. About 72% of Malaysian Re's total business volume during the year were from the domestic market, while the remaining 28% were generated from overseas business.

Voluntary Cession ("VC") accounted for 42% of the total business volume, while the remaining 58% were contributed by non-VC business.

In spite of the large losses incurred as a result of the Japanese Tsunami and floods in the northern and southern states of Peninsular Malaysia, Malaysian Re managed to improve its overall loss ratio from 67.7% to 59.4% during the year. The improvement which was seen across all portfolios, particularly in Marine and Motor classes, was due to our adoption of a more focused strategic approach in underwriting.

For the year under review, Malaysian Re registered a total investment income (including net realised and fair value gains) of RM109.7 million. This represents an increase of RM34.2 million or 45.4% from RM75.5 million recorded last year. The growth was mainly due to higher interest income and capital gain realised from the sale of investment in equities.

Consequently, Malaysian Re recorded a higher pre-tax profit of RM179.9 million, an increase of RM66.4 million or 58.6% compared to RM113.5 million last year. Profit after tax stood at RM140.9 million this year compared to RM89.1 million in the previous year.

## Takaful Ikhlas Sdn Bhd

Takaful IKHLAS's gross contribution income increased from RM614.7 million in the previous financial year to RM760.2 million during the year under review. Family Takaful accounted for 64% of the total gross contribution, whilst 29% were from the General Takaful, and the remaining 7% were derived from Investment-Linked products.

For the financial year ended 31 March 2011, Takaful IKHLAS registered a lower profit before tax and zakat of RM14.1 million, as compared to RM20.6 million in the preceding year. This was mainly due to the additional provision in relation to expense liabilities as required under the FRS4 and lower gains from disposal of investments. Meanwhile, the company's profit after tax and zakat is lower at RM8.9 million as compared to RM13.8 million in the preceding year.

To-date, Takaful IKHLAS registered a total of 1.8 million certificate (policy) holders and approximately 6,000 agents nationwide, for both Family and General Takaful. As at the end of the financial year, Takaful IKHLAS has a total of 11 branches nationwide.

In a span of 8 years, Takaful IKHLAS has been able to provide its customers with a choice of over 90 products. To maximize its value proposition to its customers' the subsidiary has not only offered them with a wide variety of excellent products, but also superior delivery system, such as enabling our financial institution partners to access information and print cover notes through its I-POS, thus providing enhanced convenience to its customers.

## MNRB Retakaful Berhad

MRT continued to progress significantly during the financial year under review with total gross contribution increased to RM56.5 million for the year ended 31 March 2011 as compared to RM45.4 million in the previous year. Of this total, General Retakaful business accounted for 77% of the total volume while the remaining 23% were generated from Family Retakaful business.

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The subsidiary's current year result however, was affected by a provision for impairment loss of RM14.6 million on the Qard provided to the General Retakaful Fund, in compliance with the FRS 139 and BNM's guidelines under the newly introduced TOF.

As a result, MRT recorded a loss after zakat and tax of RM9.5 million as compared to a profit after zakat and tax of RM2.2 million in the previous year.

## Malaysian Re Dubai Ltd ("MRDL")

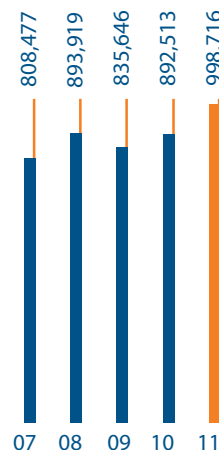
MRDL registered a higher gross premium of RM51.8 million, underwritten on behalf of Malaysian Re, as compared to RM44.6 million recorded last year. The continuous improved performance indicates our growing success in the Middle East and North African (MENA) markets, despite the adverse economic and political environment in the region.

## Report on Headline Key Performance Indicators ("KPIs") Achievement

The Group's Headline KPIs for the financial year ended 31 March 2011 were as follows:-

- i. Return on Equity ("ROE") of 9.8%; and
- ii. Revenue Growth of 12.9%.

For the year under review, the Group recorded a higher ROE of 13.0% as compared to the target of 9.8%. This is achieved on the back of Malaysian Re's improved underwriting results and higher income from investments. The improvement however, was offset by the impairment of Qard of RM14.6 million at MRT's level.



## Shareholders' Fund

In terms of Revenue Growth, the Group recorded a lower growth of 8.8 %, against the target of 12.9%. The lower growth was mainly due to the lower wakalah fee income earned by Takaful IKHLAS.

## PROGRESS & ACHIEVEMENTS

In 2010, the Group recorded several notable achievements, namely:-

### i. Ratings

- On 29 June 2011, Fitch Ratings upgraded Malaysian Re's Insurer Financial Strength (IFS) from 'A-' to 'A' with Stable Outlook.

This upgrade reflects the company's stronger financial performance and continued efforts to de-risk its balance sheet. The Stable Outlook reflects Fitch's expectation that Malaysian Re will maintain its robust financial fundamentals, which places heavy emphasis on bottom-line profitability as opposed to top-line growth.

- On 5 January 2011, A.M. Best Co., affirmed Malaysian Re's financial strength rating of A- (Excellent) and issuer credit rating of "a-" with Stable Outlook for both.

The ratings reflect Malaysian Re's consistently profitable underwriting performance, prudent investment portfolio and adequate capitalisation. Being a key subsidiary of MNRB Holdings Berhad, the ratings also manifest the Group synergy and administrative support.

- On 3 December 2010, Fitch Ratings also affirmed MRT's IFS at 'BBB+' and maintains its Stable Outlook.

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## ii. Awards

Takaful IKHLAS continues to receive recognitions both on the domestic and international fronts. Among the awards received were:-

- The Merit Industrial Award for the insurance sector, 2010 by the Kuala Lumpur Malay Chamber of Commerce.
- Best Islamic Finance News Provider for 2010 (Retakaful/Takaful Provider Award) from Islamic Finance News Awards Polls. Similar award was also won in 2008 and 2009.
- Best Takaful Product from International Takaful Award 2010.
- Best Takaful Provider 2010 Award by Euromoney Islamic Finance.
- Global Leadership Award 2011 from The Leaders Magazine, which is supported by The American Leadership Association.

## DIVIDENDS

The Group's capital preserving strategy had resulted in Malaysian Re establishing a commendable level of capital buffer as required under the Risk Based Capital Framework ("RBC"). Following the significant increase in this capital level, together with improved financial performance of the MNRB Group for the year under review, the Board of Directors is recommending a First and Final dividend of 20%, less 25% income tax. The total net dividend payout for the year, which will amount to RM31.9 million, is subject to shareholders' approval at the forthcoming Annual General Meeting.

## 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. Steps are 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 RM7.3 million. To-date, the Fund has benefitted a total of 292 deserving students through its scholarship program. This scholarship award demonstrates our unwavering commitment towards championing human capital development. We hope that this effort would produce larger number of insurance professionals with higher level of calibre and integrity to address the shortage of qualified manpower in our local insurance industry.

## PROSPECT

The IMF has recently projected that the world economy is susceptible to further slowdown from 5.1% growth in 2010 to 4.3% in 2011. With a growth projection of 6.6%, developing economies are anticipated to continuously outpace the 2.2% growth of advanced economies. In addition to that, on 5 August 2011, the 'AAA' credit rating that the US had enjoyed since 1941 was slashed by Standard & Poor by one notch to 'AA+'. - This is the first downgrade in the country's history and this factor is expected to aggravate further the existing adverse outlook of the world economy. Coupled with the European debt crisis, volatile commodity prices and the prolonged and widespread political instability in the Middle East, the year 2011 will be a challenging one for the insurance and takaful industry.

On the home front, BNM had earlier in the year projected that the Malaysian economy is expected to grow between 5% to 6% based on the economic fundamentals and stronger domestic demand in the developing Asia economies. The Government has also taken steps to strengthen Malaysia's financial system so that it is able to withstand global volatility and risks.

In addition, through the Government's dynamic Economic Transformation Plan ("ETP"), our economy is expected to be partly cushioned from the vulnerable external factors.

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The Group will continue to implement and monitor its management action plans to ensure that it is adequately capitalized to meet all regulatory requirements and support our business growth. It will also adopt a prudent and conservative approach and remain vigilant of its performance in the coming financial year, in order to further enhance its shareholders' value.

## FAREWELL AND WELCOME

On 31 March 2011, Encik Anuar Mohd Hassan retired after having served the Group for 31 years, including 17 years as the CEO. The Board would like to record our heartfelt appreciation to Encik Anuar for his loyal, dedicated and meritorious service to MNRB. We wish him all the best in his future endeavors.

We also had the pleasure of congratulating Y.Bhg Datuk Ramlan Abdul Rashid on his appointment as the Group Chief Operating Officer effective 1 April 2011. He previously served as the Executive Vice President and Deputy CEO of MRT. We are confident that Y.Bhg Datuk Ramlan, with his vast experience in the insurance industry, will contribute positively to the future growth of 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 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. Your Board will continue its concerted effort in creating and building on shareholders' value.

I also wish to thank my fellow Board members for their commitment, contribution and 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.

These achievements would not have been possible if not for the commitment and dedication of all our employees whose collective effort and teamwork have enabled the Group to ride the challenges of the past years. Let us now double our efforts and strive further in the coming year in order to realise the Group's vision especially in today's everchallenging economic environment.

On behalf of the Board

**Sharkawi Alis**

Chairman

26 August 2011