

**Malaysian Reinsurance Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 30 September 2011

1. Corporate information

Malaysian Reinsurance Berhad ("The Company") is principally engaged in the underwriting of all classes of general reinsurance business. There have been no significant changes in the nature of this principal activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at 12th Floor, Bangunan Malaysian Re, No. 17, Lorong Dungun, Damansara Heights, 50490 Kuala Lumpur, Malaysia.

The holding and ultimate holding company is MNRB Holdings Berhad, a company incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad.

2. Significant accounting policies

2.1 Basis of preparation

The interim financial statements of the Company are unaudited and have been prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia and Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended 31 March 2011.

2.2 Adoption of new and revised FRSs, Amendments to FRSs and Issues Committee ("IC") Interpretations

The accounting policies adopted in the interim financial statements are consistent with those adopted in the audited financial statements for the year ended 31 March 2011 except for the adoption of the following new Financial Reporting Standards ("FRSs"), amendments to the existing FRSs, Issues Committee ("IC") Interpretations and Technical Release ("TR") issued by MASB that are effective for the Company's financial year beginning on 1 April 2011:

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2. Significant accounting policies (cont'd.)

2.2 Adoption of new and revised FRSs, Amendments to FRSs and Issues Committee ("IC") Interpretations (cont'd.)

FRS 1 First-time Adoption of Financial Reporting Standards
FRS 3 Business Combinations (Revised)
Amendments to FRS 2 Share-based Payment
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 127 Consolidated and Separate Financial Statements
Amendments to FRS 138 Intangible Assets
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 1 Additional Exemptions for First-time Adopters
Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions
Amendments to FRS 7 Improving Disclosures about Financial Instruments
Amendments to FRSs 'Improvements to FRSs (2010)'
Amendments to IC Interpretation 14 Prepayments of a Minimum Funding Requirement
IC Interpretation 12 Service Concession Arrangements
IC Interpretation 15 Agreements for the Construction of Real Estate
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17 Distributions of Non-cash assets to Owners
IC Interpretation 4 Determining whether an Arrangement contains a Lease
IC Interpretation 18 Transfers of Assets from Customers
TR 3 Guidance on Disclosures of Transition to IFRSs
TR i-4 Shariah Compliant Sale Contracts

The adoption of the above FRSs, Amendments to FRS and IC Interpretations did not have any significant effect on the financial performance and position of the Company.

3. Seasonality or cyclicity factors

During the period ended 30 September 2011, the operations of the Company were not materially affected by any seasonal factors. With regards to cyclical factors, the performance of the Company is directly correlated with the industry cycle and the economic performance of the countries in which the Company operates.

4. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period ended 30 September 2011.

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5. Changes in estimates

There were no material changes in estimates used in the preparation of this interim financial report.

6. Issuances, cancellations, repurchase, resale and repayments of debt and equity securities

On 6 April 2011, the Company issued 10,000,000 new ordinary shares of RM1 each to its holding company, MNRB Holdings Berhad, at par for cash. The new ordinary shares issued rank pari passu with the ordinary shares in existence as of the issue date above.

Saved as disclosed above, there were no issuances, cancellations, replacements, resale or repayments of debt and equity securities during the current financial period ended 30 September 2011.

7. Significant events

Included in the results for the current financial period ended 30 September 2011 are provisions made by the Company for its share of unprecedented losses incurred on the floods in Thailand, generally regarded as a "non-catastrophic territory". The net impact of the above event to the Company's profit before taxation was RM55.0 million.

There were no other significant events during the current financial period ended 30 September 2011 other than as disclosed above and in Note 6.

8. Subsequent events

There were no significant subsequent events from 30 September 2011 to the date of this report.

9. Changes in the composition of the Company

There were no changes in the composition of the Company during the current financial period ended 30 September 2011.

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10. Investment properties

	30.09.2011	31.03.2011
	RM'000	RM'000
At beginning of period/year	28,600	57,600
Fair value gains	-	5,173
Transfer to non-current asset held for sale (Note 14)	(23,000)	(34,173)
At end of period/year	<u>5,600</u>	<u>28,600</u>
Analysed as:		
Leasehold land	-	5,200
Freehold land	4,800	4,800
Buildings	800	18,600
	<u>5,600</u>	<u>28,600</u>

Investment properties are stated at fair value as determined based on valuations performed by an accredited independent professional valuer with recent experience in the location and category of properties being valued. The fair value gains are recognised in the income statement.

11. Investment in associate

	30.09.2011	31.03.2011
	RM'000	RM'000
Unquoted shares in Malaysia, at cost	<u>75,658</u>	<u>75,658</u>

The associate is Labuan Reinsurance (L) Ltd., a company incorporated in the Federal Territory of Labuan, Malaysia. The Company's proportion of ownership interest and voting power in its associate is 20% (2010: 20%). The associate is engaged principally in the underwriting of all classes of general reinsurance business in the Federal Territory of Labuan pursuant to a license given under the Labuan Financial Services and Securities Act 2010. Its financial year end is 31 December.

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11. Investment in associate (cont'd.)

The results of the associate are not equity accounted as the holding company, MNRB Holdings Berhad, produces financial statements that are available for public use and which comply with Financial Reporting Standards in Malaysia. The summarised financial information of the associate is as follows:

	30.09.2011	31.03.2011
	RM'000	RM'000
Assets and liabilities		
Current assets	1,577,510	1,474,823
Non-current assets	20,754	36,548
Total assets	<u>1,598,264</u>	<u>1,511,371</u>
Current liabilities	7,065	20,395
Non-current liabilities	987,726	907,318
Total liabilities	<u>994,791</u>	<u>927,713</u>
Results		
(Loss)/profit for the period/year	<u>(4,573)</u>	<u>31,977</u>

12. Financial assets

The following tables summarise the fair values and carrying values of financial assets of the Company:

	30.09.2011		31.03.2011	
	Carrying value	Fair value	Carrying value	Fair value
	RM'000	RM'000	RM'000	RM'000
Financial assets at FVTPL	15,237	15,237	11,798	11,798
HTM investments	258,164	260,840	262,799	264,288
AFS financial assets	718,697	718,697	690,271	690,271
Loans and receivables	884,198	884,198	826,318	826,318
	<u>1,876,296</u>	<u>1,878,972</u>	<u>1,791,186</u>	<u>1,792,675</u>

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12. Financial assets (cont'd.)

	30.09.2011		31.03.2011	
	Carrying value	Fair value	Carrying value	Fair value
	RM'000	RM'000	RM'000	RM'000
Malaysian government securities	49,287	49,960	100,414	100,842
Government investment issues	111,351	112,396	50,084	50,250
Islamic BNM monetary notes	-	-	4,996	4,996
Debt securities	673,484	674,442	698,938	699,833
Equity securities	147,873	147,873	100,298	100,298
Institutional trust deposit	53,314	53,314	52,003	52,003
Structured products	10,103	10,103	10,138	10,138
Fixed and call deposits	610,093	610,093	556,056	556,056
Islamic investment accounts	147,739	147,739	162,442	162,442
Other loans and receivables	73,052	73,052	55,817	55,817
	<u>1,876,296</u>	<u>1,878,972</u>	<u>1,791,186</u>	<u>1,792,675</u>

The Company's financial instruments are summarised by categories as follows:

	30.09.2011 RM'000	31.03.2011 RM'000
(a) Financial assets at FVTPL		
At fair value:		
Shares quoted in Malaysia:		
Shariah approved equities	4,136	1,660
Others	998	-
Structured products	10,103	10,138
	<u>15,237</u>	<u>11,798</u>
(b) HTM investments		
At amortised cost:		
Islamic BNM monetary notes	-	4,996
Malaysian government securities	49,287	100,414
Unquoted corporate debt securities:		
Government guaranteed	65,021	65,041
Secured	15,706	25,735
Government investment issues	111,351	50,084
Short term commercial papers	14,805	14,534
Islamic commercial papers	1,994	1,995
	<u>258,164</u>	<u>262,799</u>

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12. Financial assets (cont'd.)

	30.09.2011	31.03.2011
	RM'000	RM'000
(b) HTM investments (cont'd.)		
At fair value:		
Islamic BNM monetary notes	-	4,996
Malaysian government securities	49,960	100,842
Unquoted corporate debt securities:		
Government guaranteed	65,680	65,602
Secured	15,984	26,058
Government investment issues	112,396	50,250
Short term commercial papers	14,825	14,545
Islamic commercial papers	1,995	1,995
	<u>260,840</u>	<u>264,288</u>
(c) AFS financial assets		
At cost:		
Unquoted shares in Malaysia	<u>44,503</u>	<u>44,503</u>
At fair value:		
Unquoted corporate debt securities	535,814	551,381
MNRB IMTN	40,144	40,252
Quoted shares in Malaysia:		
Shariah approved equities	54,452	30,874
Others	43,521	22,920
Quoted shares outside Malaysia	263	341
	<u>674,194</u>	<u>645,768</u>
	<u>718,697</u>	<u>690,271</u>

The investments in unquoted shares are measured at cost and their fair value are not disclosed as they cannot be measured reliably based on available information.

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12. Financial assets (cont'd.)

(c) AFS financial assets (cont'd.)

The pertinent information of the investments in unquoted shares in Malaysia are as follows:

	30.09.2011	31.03.2011
	RM'000	RM'000
(i) 27,500,000 ordinary shares of RM1.00 each of Financial Park (Labuan) Sdn. Bhd. ("FPL"), representing an equity shareholding of 9%. Less: Impairment loss	28,283 <u>(4,759)</u>	28,283 <u>(4,759)</u>
	23,524	23,524
20,000,000 redeemable preference shares of RM1.00 each of FPL	<u>20,569</u>	<u>20,569</u>
	<u>44,093</u>	<u>44,093</u>
(ii) 410,000 ordinary shares of Malaysian Rating Corporation Berhad ("MARC") of RM1.00 each, representing an equity shareholding of 4%.	410	410
Total unquoted shares in Malaysia	<u>44,503</u>	<u>44,503</u>

(d) Loans and receivables

At amortised cost/fair value:

Fixed and call deposits with licensed:		
Commercial banks	223,339	126,022
Investment banks	386,600	430,034
Islamic investment accounts with licensed:		
Co-operative bank	74,710	73,209
Islamic banks	73,183	89,233
Institutional trust deposit	53,314	52,003
Secured staff loans:		
Receivable within 12 months	1,017	1,230
Receivable after 12 months	4,653	5,040
Due from insurance Pool accounts	26,197	18,369
Income due and accrued	14,221	13,603
Due from related companies:		
Fellow subsidiaries	825	1,293
Other receivables and deposits	<u>26,139</u>	<u>16,282</u>
	<u>884,198</u>	<u>826,318</u>

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12. Financial assets (cont'd.)

(d) Loans and receivables (cont'd.)

The amounts due from the holding company and fellow subsidiaries are unsecured, interest-free and repayable upon demand.

(e) Fair values of financial assets

	Financial assets at FVTPL RM'000	AFS financial assets RM'000	Total RM'000
30.09.2011			
Quoted market price	5,134	98,236	103,370
Valuation techniques - market observable inputs	10,103	575,958	586,061
At cost	-	44,503	44,503
	<u>15,237</u>	<u>718,697</u>	<u>733,934</u>
31.03.2011			
Quoted market price	1,660	54,135	55,795
Valuation techniques - market observable inputs	10,138	591,633	601,771
At cost	-	44,503	44,503
	<u>11,798</u>	<u>690,271</u>	<u>702,069</u>

13. Insurance receivables

	30.09.2011 RM'000	31.03.2011 RM'000
Amounts due from brokers and ceding companies	166,009	143,993
Allowance for impairment losses	(5,895)	(5,820)
	<u>160,114</u>	<u>138,173</u>

Included in amounts due from brokers and ceding companies is an amount of RM2,141,000 (2010: RM551,000) due from an associate, Labuan Reinsurance (L) Ltd. This amount receivable is subject to settlement terms stipulated in the reinsurance contracts.

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	30.09.2011	31.03.2011
	RM'000	RM'000
Freehold land and building	<u>57,173</u>	<u>34,173</u>

During the period ended 30 September 2011, the Company had entered into negotiations to dispose of two buildings previously classified as investment properties. Subsequent to the end of the financial period, the sale and purchase agreement for one of the two properties was signed. As at the date of this report, the disposal of the remaining property has yet to be completed.

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15. Insurance contract liabilities

	30.09.2011			31.03.2011		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Claim liabilities (i)	1,394,475	(364,770)	1,029,705	1,131,439	(128,201)	1,003,238
Premium liabilities (ii)	291,913	(41,345)	250,568	260,638	(18,396)	242,242
	<u>1,686,388</u>	<u>(406,115)</u>	<u>1,280,273</u>	<u>1,392,077</u>	<u>(146,597)</u>	<u>1,245,480</u>

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15. Insurance contract liabilities (cont'd.)

	Gross RM'000	30.09.2011 Reinsurance RM'000	Net RM'000	Gross RM'000	31.03.2011 Reinsurance RM'000	Net RM'000
(i) Claim liabilities						
At beginning of period/year	1,131,439	(128,201)	1,003,238	1,073,150	(123,025)	950,125
Adjustment to claims incurred:						
- Outstanding reserves for current underwriting year	202,808	(174,651)	28,157	140,486	(26,973)	113,513
- Movements in outstanding reserve from prior underwriting years	(295,816)	(16,052)	(311,868)	514,533	(19,441)	495,092
- Movement in IBNR and PRAD	48,299	(24,092)	24,207	(112)	1,050	938
- Claims paid during the period/year	307,745	(21,774)	285,971	(596,618)	40,188	(556,430)
At end of period/year	<u>1,394,475</u>	<u>(364,770)</u>	<u>1,029,705</u>	<u>1,131,439</u>	<u>(128,201)</u>	<u>1,003,238</u>
(ii) Premium liabilities						
At beginning of period/year	260,638	(18,396)	242,242	240,142	(29,627)	210,515
Premiums written in the period/year	608,175	(97,321)	510,854	1,172,385	(114,718)	1,057,667
Premiums earned during the period/year	(576,900)	74,372	(502,528)	(1,151,889)	125,949	(1,025,940)
At end of period/year	<u>291,913</u>	<u>(41,345)</u>	<u>250,568</u>	<u>260,638</u>	<u>(18,396)</u>	<u>242,242</u>

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16. Dividends

An interim dividend of 9.8% less 25% tax based on the issued and paid-up share capital of 510,000,002 ordinary shares at the date of this report, amounting to a total net dividend of RM37,500,000, was approved by the Board on 19 July 2011 and paid on 3 October 2011.

17. Operating lease arrangements

The Company as lessee

The Company has entered into non-cancellable operating lease agreements for the use of office premises. This lease is for a period of 5 years and subject to review every 2 years. There are no restrictions placed upon the Company by entering into this lease.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities, are as follows:

	30.09.2011	31.03.2011
	RM'000	RM'000
Not later than 1 year	2,816	2,816
Later than 1 year and not later than 5 years	5,632	5,632
	<u>8,448</u>	<u>8,448</u>

18. Capital commitments

	30.09.2011	31.03.2011
	RM'000	RM'000
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	2,843	5,800
Intangible assets	892	810
	<u>3,735</u>	<u>6,610</u>

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19. Regulatory capital requirement

The total capital available of the Company as at 30 September 2011, as prescribed and reported under the RBC Framework, is provided below:

	30.09.2011	31.03.2011
	RM'000	RM'000
Eligible Tier 1 Capital		
Share capital	510,000	500,000
Retained profits	372,165	331,616
	<u>882,165</u>	<u>831,616</u>
Tier 2 Capital		
AFS reserves	<u>11,623</u>	<u>10,554</u>
Total Capital Available	<u>893,788</u>	<u>842,170</u>