

FITCH AFFIRMS 'BBB+' IFS RATING OF MALAYSIA'S MNRB RETAKAFUL

Fitch Ratings-Hong Kong/Singapore-28 July 2009: Fitch Ratings has today affirmed Malaysia-based MNRB Retakaful Berhad's (MRT) Insurer Financial Strength (IFS) rating at 'BBB+'. The Outlook is Stable.

Fitch views MRT as an important member of MNRB Holdings Berhad and its rating takes into consideration the holding company's ability and willingness to provide support, if needed. MRT's rating also reflects the company's healthy capitalisation, conservative investment mix and prudent management. However, the rating is constrained by the company's limited track record, modest size, possible execution risks of operating plan, as well as the competitive and evolving nature of the overall takaful operating environment.

Currently, MRT writes mainly general retakaful business from the Malaysian market. It plans to focus on general retakaful business in the short-to-medium-term while it beefs up its expertise on family retakaful. To reduce start-up costs and optimise operational efficiency, the company also draws upon shared resources within the group to support its non-core functions including information technology, finance, human resources and administration.

MRT follows a modified Wakalah (agency) model, whereby the retakaful operator receives a Wakalah fee for the management services it provides to the participants, as well as a share in the investment profit of the risk funds. The Wakalah fee charged and the share of the investment profit vary by the type of retakaful business underwritten and MRT's profitability is determined, to a large extent, by its Wakalah fee income and expense level.

In Fitch's opinion, while there are possible execution risks inherent in MRT's business plan as with all start-ups, these are somewhat mitigated by the group's high level of commitment to support MRT's operations. The agency also expects the company to show steady improvement in its financial results over the next few years.

Additionally, there are developing issues in the takaful market faced by all the players. These include a limited pool of skilled staff, scarcity of suitable shariah compliant investments and intense market competition from other takaful operators as well as conventional insurers.

MRT was incorporated in August 2007 as a wholly-owned subsidiary of MNRB Holdings Berhad. For the financial year ended 31 March 2009, its gross contributions amounted to about RM23.2m.

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