Chairman's Statement

SHARKAWI ALIS
Chairman

DEAR VALUED SHAREHOLDERS,

On behalf of the Board of Directors, it is my pleasure to present to you the Annual Report of the MNRB Group for the financial year ended 31 March 2016 (FY2016).

CHALLENGING MARKET ENVIRONMENT

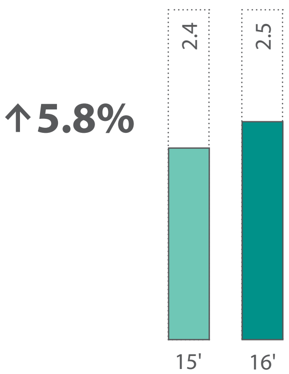
The FY2016 was a testing year for the Group as our performance was largely impacted by a difficult operating landscape. The challenges we faced during this financial year came from a combination of several factors which ultimately affected the results of the Group.

The global economic growth in 2015 was recorded lower at 2.4% as compared to 2.6% in 2014. Not only was there lower growth, negative interest rates seem to become the "new normal" in the major economies. Subdued GDP growth was largely driven by a significant decline in oil prices, weakening emerging market currencies, economic slowdown in China and escalating geopolitical risks. Slowing global economy coupled with excess capacity sent the global non-life insurance premium growth lower to 2.5% (2014:2.8%) while life premium also recorded a slower growth rate of 3.3% (2014:4.7%).

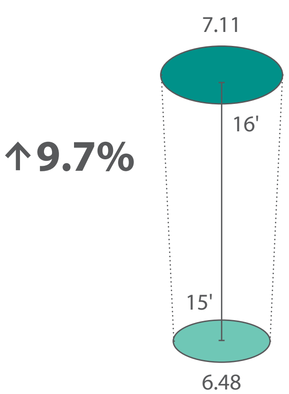
The Malaysian economy expanded by 5.0% in 2015, lower than 6.0% growth registered in 2014 as rising living costs and tight financial conditions dented consumer confidence. Meanwhile, in reaction to the sharp decline in oil prices, the government had to recalibrate its budget for 2016, translating into lower allocation for expenditures but such a move was essential in maneuvering the economy during this tough period and also to sustain the national sovereign credit rating.

The Group has taken steps to better position itself in the current market landscape via prudently exploring new business opportunities, including expansion into other territories for our overseas reinsurance business.

Group Revenue
(RM billion)



Group Total Assets
(RM billion)



Given the slower growth momentum in the economy, the general insurance and takaful Gross Written Premium (GWP) grew at a slower rate of 2.7% in 2015 to RM19.8 billion as compared to 6.6% in the year before and this was the industry's slowest growth pace in more than a decade. The life and family industry also shared the same sentiment as premiums from new business grew at a slower rate of 2.5% to RM12.8 billion as compared to 6.1% growth registered in the previous year.

Weakening of the Ringgit against the US dollar coupled with lower oil prices sent the financial market volatility to unprecedented levels in 2015 with a net outflow being the case in the domestic equity market. This unfavourable financial market condition limits the opportunity for the Group to realize capital gains from its investments and had also resulted in higher impairment in the value of our investment in equities.

The introduction of China Risk Oriented Solvency System (C-ROSS) and regulatory changes in Indonesia requiring Indonesian insurers to optimise local retention as mentioned in my statement last year have been implemented. In addition, excess reinsurance capacity pushes reinsurance rates lower due to stiff competition. In this new era, competition for business would not just be among reinsurers alone but also with capital markets. Moreover, regulatory changes that are taking place also add more challenges to grow the business.

GROUP RESULTS

Amid this difficult operating environment, the Group's revenue increased by 5.8% from RM2.4 billion in FY2015 to RM2.5 billion in FY2016. Meanwhile, the Group recorded net investment income of RM195.1 million, about 4.0% lower than RM203.2 million registered in the previous financial year. As of the end of FY2016, total assets amounted to RM7.11 billion, 9.7% higher than RM6.48 billion in the year before.

Guided by capital preservation in adopting our investment risk appetite, 95% of invested assets are in the form of bonds and deposits. Moreover, majority of corporate bond holdings are of high investment grade. The effect to Group's results would have been more acute if not for our cautious investment approach and prudent capital management practices given the financial market volatility during the financial year.

On the reinsurance front, abnormally higher claims from the overseas business and the exceptionally higher number of large domestic claims had impacted our results. In addition, the results of the takaful business included one-off adjustments made during the period. Confronted with severe economic challenges and these profound difficulties, the Group registered a net loss of RM38.8 million for FY2016 as compared to a net profit of RM139.1 million in FY2015. This is the first time that the Group registered a net loss since the 1998 Asian Financial Crisis.

Malaysian Reinsurance Berhad

(Malaysian Re)

Malaysian Re's GWP increased by 4.5% to RM1.37 billion in FY2016 despite the competitive business landscape. The growth in premium was higher than 2.3% that the general insurance industry in Malaysia had achieved in 2015. Its overseas business now makes about 43.5% of total revenue compared to 41.1% in the previous year.

Several large claims and risk events that occurred in FY2016 had dampened Malaysian Re's profitability in spite of the growth in revenue. The company suffered significantly high claims from explosions at Port of Tianjin in China which was the largest insured-loss event of the year as well as the biggest risk loss event in Asia's insurance history with the industry's loss estimated to be in the range of USD2.5-3.5 billion. Further to this, the company also suffered losses from the Taiwan Earthquake and South Indian floods. The South Indian floods witnessed rains which virtually broke a 100-year record with one day's rainfall covering a whole month's average. While insurance losses are not geographically correlated, FY 2016 was an exception as the number of large domestic claims was also significantly high, impacting Malaysian Re's overall underwriting results.

In addition, the sharp decline in the ringgit during the financial year had inflated our overseas claims payments during the year. Furthermore, our overseas claims reserves had to be adjusted upwards to reflect the prevailing exchange rates.

Given all these challenges, the company recorded a net profit of RM2.5 million in FY2016 in comparison to a net profit of RM152.1 million registered a year earlier.

Takaful Ikhlas Berhad

(Takaful IKHLAS)

Takaful IKHLAS's gross contributions grew by 9.6% to RM905.0 million with family takaful business making up 68.0% of total gross contribution. The family takaful increased by 11.0% to RM615.1 million while the general takaful grew by 6.8% to RM293.9 million in FY2016. This compared favourably to industry growth where the family takaful registered 3.9% growth and the general takaful grew 6.0% in 2015. The ongoing transformation of the business at Takaful IKHLAS led to higher growth in its family takaful business while slower motor vehicle sales was the main factor that lowered the growth in general takaful business.

On the operational front, the result of the Group's takaful business was affected by one-off adjustments which were made during the period. These adjustments include the reclassification of direct expenses previously charged to takaful funds to the shareholder's fund, the transfer of previous year's hibah from the shareholder's fund to the general takaful fund and the reallocation of gross contributions between the shareholder's fund and family takaful funds.

Due to the one-off adjustments mentioned, the company recorded a net loss of RM34.8 million as compared to net profit of RM19.4 million in the preceding year.

MNRB Retakaful Berhad

(MRT)

As highlighted last year, MRT had ceased writing any new business and therefore saw its gross contribution for FY2016 declining from RM63.9 million to RM23.0 million. The general retakaful business accounted for 47.4% of the total business while the remaining 52.6% was generated from the family retakaful business. MRT registered a net loss of RM0.5 million in FY2016 as compared to a net loss of RM17.7 million in FY2015. Moving forward, the retakaful business of the MNRB Group will be offered via the retakaful division at Malaysian Re. MRT would continue to manage its outstanding business portfolio until such time deemed appropriate for it to surrender its operating license to Bank Negara Malaysia (BNM).

MALAYSIAN RE RETAKAFUL DIVISION

Malaysian Re has been granted a license by the Ministry of Finance to underwrite general and family retakaful business with effect from 13 April 2016. This will enable the Group to utilize the higher Insurer Financial Strength Rating (IFS) ratings of 'A' (Fitch) and 'A-' (A.M. Best) from Malaysian Re to gain access to businesses which otherwise would not have been accessible due to the lower rating of 'BBB+' (Fitch) assigned to MRT in the past. This new retakaful division will be leveraging on the proven technical expertise and combined resources at Malaysian Re, thereby providing better economies of scale. Besides, the retakaful business will be able to reach into the Middle East and North African (MENA) region through our subsidiary, Malaysian Re (Dubai) Ltd. (MRDL).

FINANCIAL STRENGTH RATING

During the year, Malaysian Re had its ratings reaffirmed by two credit ratings agencies. Fitch Ratings reaffirmed Malaysian Re's IFS of 'A' with a stable outlook while A.M. Best also reaffirmed Malaysian Re's IFS rating of 'A-' (Excellent) with positive outlook.

GOVERNANCE AND RISK MANAGEMENT PRACTICES

The Board of Directors remains fully committed in upholding high standards of corporate governance throughout the Group. We shall strive to continuously improve the effective application of the principles and best practices as laid down by the regulators including BNM, Securities Commission Malaysia (SC) and Bursa Malaysia Securities Berhad (Bursa).

MNRB's policy is to implement these principles and best practices as well as to uphold high standard of business integrity in all activities undertaken by the Group. This includes a commitment to emulate good industry examples and to comply with the respective guidelines and recommendations in the conduct of business activities of the Group.

As a financial holding company licensed under the Financial Services Act, 2013 (FSA) and also a public listed entity, MNRB is responsible to oversee the implementation of the Group's risk management and internal control systems and review its effectiveness, adequacy and integrity. It recognizes that risk management is a continuous process, designed to manage the risk of failure to achieve business objectives.

SHAREHOLDER VALUE

Enhancing shareholders' values and capital preservation continue to be the core thrust of our operations. As I have explained at the beginning of this statement, 2015 was indeed a very challenging year for the global economy due to divergence in monetary policy, significant drop in oil prices and volatile foreign exchange market.

As for our Group, the unfavourable effect to operating performance was not limited to these factors alone. Unprecedented claims during FY2016 affected the results of our reinsurance subsidiary, an anomaly in the context of the Group's historical performance. In addition, the one-off adjustments related to the operational matters at the takaful subsidiary as mentioned earlier also contributed in pushing the Group into a net loss position.

The MNRB Group believes in delivering shareholder value while exercising appropriate stewardship over its resources. With all these challenges which had adversely impacted the Group, the Board of Directors is not recommending the payment of a dividend in respect of the financial year ended 31 March 2016. Nevertheless, we look forward to your continuous and unwavering support to the Group as we strive to improve our financial position in the forthcoming year.

NAVIGATING DURING THE TOUGH TIMES

The business landscape would continue to be surrounded by external challenges brought about by financial market volatility, severity and frequency of claims as well as catastrophe events, economic impediments and other relevant risks. These factors could affect the Group's operating performance as what we experienced in FY2016. However, they are not unique to the Group alone as this is the nature of our industry.

The Group has taken steps to better position itself in the current market landscape via prudently exploring new business opportunities overseas. However, forex risk management continues to be a challenge as we expand into other territories.

As for takaful business, the Agency Transformation Programme will continue as we seek to improve operating efficiency. In addition, strengthening of product offerings remains in our agenda to further enhance market competitiveness. In anticipation of market de-tariffication for fire and motor businesses, the Group is putting in place adequate resources and appropriate strategies to face the added challenge from this liberalisation.

We realise that our business requires strong technical skills and as such, we will continue to invest in people development to ensure a continuous supply of talent in the Group as well as the cultivation of a pool of dynamic insurance and takaful professionals.

THE OUTLOOK AHEAD

The global economy is not expected to rebound in 2016 with global GDP growth forecast at around 2.4%, replicating the growth in 2015. Among the developed economies, only the United States is looking relatively sturdy while the economies of the Eurozone and Japan are still struggling in spite of negative interest rate policy imposed. Major emerging economies are also facing a few setbacks with China continuing to experience tapering GDP growth while Russia and Brazil had fallen into recession. In addition, other economic challenges in the form of lower oil prices, volatile fund flows, geopolitical risks and monetary policy divergence are to be expected.

The insurance market has been beset with difficulties such as low interest rates which is affecting investment income while uncertain economic environment poses threats to business growth. Furthermore, the global insurance market would continue to be faced with excess capacity while capital market's interest in Insurance Linked Securities will continue to grow as yields offered by traditional debt capital market instruments remain low.

The Malaysian economy is expected to grow in the range of 4.0%-4.5% in 2016, lower than 5.0% recorded in 2015. The economy is facing the prospect of further slowdown in the banking sector while lower consumer confidence would limit the upside potentials in domestic demand. However, proactive measures taken by the government in navigating the economy during this tough period had ensured that fiscal metrics remain intact, a crucial move in sustaining our national sovereign credit rating.

On the domestic insurance industry, the operating environment is not expected to improve significantly as current uncertainties are likely to prevail given our moderate GDP outlook for this year. The general insurance/takaful industry will continue to be largely driven by major infrastructure projects and the automotive sector's performance while on the life insurance/family takaful segment, consumers' purchasing power will be the key driver. Pressure on purchasing power affects consumer behavior where adjustments to spending pattern would lower their allocation for life insurance/family takaful products.

Phased de-tariffication of both fire and motor classes is taking place this year and after a certain period, motor premiums will move away from standard tariff rates to risk-based premiums i.e. consumers will be charged different premium rates subject to their risk profile. As for the fire insurance, there will be a gradual adjustment to tariff rates for identified risk groups. The de-tariffication would also encourage more product innovation and price differentiation, giving customers more choice offerings based on price and risk factors. Risk-based pricing model will also give opportunity for companies to manage their business portfolio more effectively as pricing will be reflective of underwritten risks.

The Islamic Financial Services Act 2013 (IFSA) requires a composite takaful operator to split its family and general businesses under separate licenses by July 2018. Takaful IKHLAS which holds a composite license is currently carrying out the necessary steps and is on track to comply with the requirement. With two separate entities carrying out general and family business, it is expected that there will be improved focus on the respective business segments which will result in better shareholder values.

Despite the challenging landscape, I am confident that with the measures and actions that are taking place, the Group's performance will improve in the next financial year.

ACCOLADES

I am pleased to inform that Malaysian Re won the 2015 Market Pioneer Award in conjunction with the 13th RAM Ratings League Award for its RM250 million Subordinated Medium Term Notes Programme. This is the first RM-Sukuk issued by any Malaysian reinsurer. This financing programme signifies Malaysian Re's role in enhancing the depth of Malaysian debt capital market.

In addition, Takaful IKHLAS received an international level recognition by winning the European Global Banking and Finance Awards 2016 Takaful Company of the Year (Malaysia) from the European Magazine and with this award it is the only Malaysian company being conferred with the accolade for the Takaful Category. This award marks the recognition of our takaful subsidiary by the international business community.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to express my heartfelt appreciation to the many parties who had given MNRB Group their utmost support. Our deepest gratitude is to our valued shareholders for their continued faith and confidence in us all these years. My sincere thanks also to our customers, business partners, ceding companies and intermediaries, as well as BNM and the insurance and takaful associations, for their steadfast support and cooperation.

As management strive to face a challenging marketplace and economic uncertainties, our Board continues to uphold strong governance and keeps a robust oversight at all times. The Group had appointed four new board members. They are Datuk Nik Moustpha Nik Hassan, Puan Rosinah Mohd Salleh, Datin Zaimah Zakaria and Encik Arul Sothy Mylvaganam. Both Datuk Nik Moustpha and Puan Rosinah were appointed to the Board of Takaful IKHLAS whilst Datin Zaimah Zakaria and Encik Arul Sothy Mylvaganam were appointed to the Board of Malaysian Re. Further to these new additions, Encik Mustaffa Ahmad and Encik Md Adnan Md Zain who currently are on the Board of Malaysian Re have been appointed to the Boards of MNRB and Takaful IKHLAS respectively. These new Directors added diversity and experience to our boards.

I would like to thank Encik P. Raveenderen who resigned from the Boards of MNRB and Malaysian Re on 1 July 2016. Encik P. Raveenderen has served the Group as a Director for more than 22 years with full commitment, and his departure will be deeply felt by us. My appreciation also goes to Dato' Othman Hashim and Tuan Haji Halim Din, both of whom resigned from the Board of

Takaful IKHLAS on 15 February 2016 and to Encik Yahaya Besah and Dr. Syed Musa Syed Jaafar Alhabshi who resigned from the Board of Takaful IKHLAS on 19 August 2015. We sincerely thank them for their guidance, dedication and contribution to the Group. My heartfelt thanks also go to my other colleagues on the Board for their dedication and contributions.

Last but not least, my sincere gratitude goes to our loyal management team and employees for their unrelenting commitment and dedication to the Group.

We look to all our stakeholders to lend us their continuous support as we leverage on all opportunities and overcome all challenges to ensure a strong and sustainable future for all.

On behalf of the Board

Sharkawi Alis
Chairman
5 July 2016