CHAIRMAN'S STATEMENT

SHARKAWI ALIS
Chairman

DEAR VALUED SHAREHOLDERS

On behalf of the Board of Directors, it is my privilege and pleasure to present the Annual Report of the MNRB Group for the financial year ended 31 March 2015 (FY2015).

A MIXED ECONOMIC ENVIRONMENT

The global economy expanded at a moderate pace in 2014, posting real Gross Domestic Product (GDP) growth of 3.4%, the same level registered in 2013. Economic divergence persisted with the developed economies continuing to be the main pillar of growth. The US economy grew 2.4% over the same period from the 2.2% growth recorded in the previous year as its unemployment rate fell to 5.6%, the lowest level since 2008. The Eurozone saw its GDP growing 0.8% after contracting 0.4% in 2013. Economic growth in the United Kingdom was also higher at 2.9% compared to the 1.7% growth registered in the previous year. However, there was still the lingering effect of the sovereign debt crisis in the Eurozone, particularly in Greece, and this made the task quite challenging for European policymakers. An uneven global growth path was seen in the 0.1% GDP contraction in Japan despite steep policy easing by the Bank of Japan (BoJ). Further to that, the International Monetary Fund (IMF) reported that GDP among the emerging economies grew at a slower rate of 4.6% in 2014 as compared to 5.0% in the previous year. Economic growth in China decelerated further to 7.4% from 7.7% previously as structural economic reforms continued to take place, underscoring global economic divergence in the present cycle.

The significant correction in the price of oil is a concern within the context of the Malaysian economy as the country is a net exporter of crude oil, gas and petroleum products. The combined value of these exports was RM163.1 billion in 2014, while government revenue from this segment via petroleum tax, royalty and dividend income makes up about RM63.0 billion or 24.5% of the total government revenue. Due to the sharp correction in oil prices, the Government revised its budget deficit-to-GDP estimate for 2015 upwards to 3.2% from its initial estimate of 3.0% (with an oil price assumption of USD55.0 per barrel). The revised estimate, however, was still more favourable than the 3.5% deficit recorded in 2014.

Despite the negative development in global oil prices, the Malaysian economy posted higher growth of 6.0% in 2014 (2013: 4.7%). This was due to better-than-expected exports performance during the first half of 2014 which cushioned the negative effect of the lower oil price to the economy in general. Overseas shipments gained 8.3% in 1H2014 before moderating in 2H2014 due to factors such as the economic slowdown in Japan, China and the Eurozone, while lower commodity prices during the second half of the year affected the value of exports. Additionally, private consumption remained relatively robust with an annual growth rate of 7.1% on the back of stable labour market conditions and this was seen as a mitigating factor of the downside risk brought on by the decline in global oil prices.

The end of Quantitative Easing (QE) in the US was followed by market expectations of an interest rate hike by the US Federal Reserve. Such an expectation triggered capital outflows from the emerging markets with RM6.9 billion of foreign selling seen in the local stock market for the whole of 2014. This also put downward pressure on emerging market currencies and the ringgit was not spared as investors started to price in USD-favourable interest rate differentials. Downward pressure on the local currency raised concerns about additional costs among corporations with forex exposure in their balance sheets. The challenging environment also affected the primary equity capital market. There were only 14 new listings on Bursa Malaysia Securities Berhad in comparison to 18 listings in 2013. These initial public offerings (IPOs) collectively raised funds amounting to RM5.9 billion, down 28.0% from the RM8.2 billion raised in 2013. Meanwhile, the FBM KLCI hit an all-time high of 1,892.65 points on 8 July 2014 but moderated to close the year at 1,761.3 points, 5.7% lower than the preceding year-end's 1,866.96 points.

MODERATE INDUSTRY GROWTH

Global general insurance premiums registered 2.5% real growth in 2014, lower than the 3.1% growth in 2013. In the advanced economies, premium growth slowed to 1.7% from 1.9% in the previous year and the same outcome was observed among the emerging economies where premium growth slowed from 8.2% in 2013 to 5.5% in 2014. For the takaful industry, global gross takaful contributions for both general and family are estimated to have grown by 15.6% in 2014 as compared to 15.0% in 2013 with Saudi Arabia and Malaysia as the largest takaful markets.

In 2014, natural disasters globally caused economic losses amounting to USD132.0 billion; however, this was some 37.0% below the 10-year average of USD211.0 billion. Furthermore, the year's disasters caused insurance losses of USD39.0 billion, which was 38.0% below the 10-year average of USD63.0 billion. These losses were the lowest insured total loss since 2009, translating into the second consecutive year of below-normal catastrophe losses. Notable disasters during the year included major flooding incidents in India, Pakistan, China, and Southeast Europe; billion-dollar convective thunderstorm events in the US, France and Germany; as well as winter storms in Japan and the US.

In Malaysia, we had the East Coast floods that affected the states of Kelantan, Terengganu and Pahang which caused widespread destruction of property and belongings.

Developments in takaful are likely to accelerate in key domiciles such as the key Gulf Cooperation Council (GCC) countries as well as highly populated Muslim countries, such as Indonesia and Pakistan, where takaful is gaining popularity. In Pakistan, for example, recent changes to regulations allow conventional insurers to establish takaful windows, which should spur growth in the country's nascent takaful market. Meanwhile, the concept of takaful and Islamic finance continues to gain interest and we should expect more new entrants mainly from African and Asian countries.

In Malaysia, the general insurance industry sustained a robust growth trend, registering gross written premiums of RM16.9 billion, an increase of 6.1% from 2013. The growth pace recorded was about identical to the country's economic growth of 6.0% seen over the same period. The motor insurance segment which makes up about 47.0% of total gross written premiums in the industry grew at a lower rate of 5.6% (2013: 8.7%). The non-motor segment on the other hand saw premiums growing at 6.6% in 2014 compared to the 5.4% growth recorded in the previous year. In the general takaful segment, gross contributions rose 13.3% in 2014 to RM2.2 billion with major business classes registering double-digit growth.

Meanwhile, the life insurance industry recorded healthy growth in 2014 with premiums from new business growing 9.6% to RM8.9 billion. Investment-linked products were the main drivers of growth recording an 18.0% increase in 2014 to RM3.9 billion as compared to RM3.3 billion in 2013. The family takaful industry on the other hand saw contributions from new business declining 2.9% to RM3.5 billion in 2014.

STEADFAST GROUP PERFORMANCE

The difficult global economic backdrop coupled with a few large claims, including the East Coast floods, created a challenging business environment for insurance and takaful operators in the country. Despite this difficult operating environment, the MNRB Group posted revenue of RM2.4 billion in FY2015, equivalent to FY2014's revenue. Gross written premiums and contributions amounted to RM2.2 billion. The Group garnered total investment income amounting to RM199.5 million, a 14.5% or RM25.3 million increase over the RM174.2 million recorded in FY2014.

The Group's net profit for FY2015 was RM139.1 million, a reduction of 10.8% from RM156.0 million, translating into Earnings Per Share (EPS) of 65.3 sen as compared to 73.2 sen previously. This performance was achieved despite the provisions that the Group had made for a few large claims that impacted its reinsurance, takaful and retakaful subsidiaries, including claims related to the East Coast floods towards the end of 2014.

PERFORMANCE OF KEY OPERATING SUBSIDIARIES

Malaysian Reinsurance Berhad (Malaysian Re)

Over the course of the financial year, Malaysian Re's total gross premiums remained stable at RM1.3 billion. Approximately 59.0% of Malaysian Re's total business volume was from the domestic market as compared to 62.0% in the previous year, whilst the remaining 41.0% was generated from its overseas business in comparison to 38.0% recorded previously. Malaysian Re continues to draw closer to achieving its target of having equal contributions in terms of gross premiums for both its local and overseas portfolios for the financial year ending 31 March 2017.

Malaysian Re registered a profit before tax of RM196.0 million as compared to RM213.1 million in the preceding year, a reduction of 8.0%. This commendable performance was registered despite the large losses reported during the year such as the recent East Coast Floods, strikes and riots in Vietnam, and a major shipping disaster in Korea. Investment income grew by RM7.1 million or 8.2% to RM92.7 million in FY2015 from RM85.6 million previously. Malaysian Re recorded an overall profit after tax of RM152.1 million in comparison to RM160.7 million previously.

Takaful Ikhlas Berhad (Takaful IKHLAS)

In FY2015, Takaful IKHLAS's gross contributions increased by 7.3% from RM769.6 million to RM826.0 million. The Family Takaful business accounted for 66.8% of total gross contributions and grew by 1.1% over the previous year. The General Takaful business accounted for the remaining 33.2% and grew by 22.7% over the previous year.

The shareholder's fund registered a profit before tax and zakat of RM27.8 million, a growth of 33.3% as compared to RM20.9 million in the preceding year.

The shareholder's fund recorded a net profit after tax and zakat of RM19.4 million, a growth of 20.1% as compared to the preceding year's RM16.1 million. The favourable variance was partly due to higher wakalah fee income from higher gross contributions and higher surplus administrative charges from the General Takaful business.

The ongoing transformation of the business is already showing positive results and we are optimistic that the performance will continue to improve in the coming years.

MNRB Retakaful Berhad (MRT)

MRT saw its gross contribution for FY2015 reduced by 45.5% from RM117.2 million to RM63.9 million. The General Retakaful business accounted for 44.1% of the total business while the remaining 55.9% was generated from the Family Retakaful business.

MRT registered a higher loss of RM17.7 million in FY2015 as compared to a loss of RM1.2 million in FY2014 mostly due to lower gross contributions arising from business portfolio consolidation and an increase in provision for claim liabilities of the General Retakaful fund.

MAINTAINING OUR STRONG SHOWING

Over the course of the financial year, Malaysian Re had its ratings reaffirmed by the rating agencies, which is apt testament to the quality of the Company's business and the strength of its capital.

Fitch Ratings reaffirmed Malaysian Re's Insurer Financial Strength Rating (IFS) of 'A' with a stable outlook. The rating takes into consideration Malaysian Re's healthy financial fundamentals, as demonstrated by its sustained premium growth, consistently healthy financial performance, solid market franchise in Malaysia, and highly liquid profile of its investment portfolio. At the same time, A.M Best also reaffirmed Malaysian Re's IFS rating of 'A-' with a stable outlook. The ratings considered Malaysian Re's strong operating performance and excellent risk-adjusted capitalisation.

GOVERNANCE AND RISK MANAGEMENT PRACTICES

The Board remains committed to upholding high standards of corporate governance throughout the Group. We strive to continuously improve the effective application of the principles and best practices as laid down by the Malaysian Code on Corporate Governance, the Corporate Governance Guide as well as the Main Market Listing Requirement issued by Bursa Malaysia Securities Berhad. MNRB's policy is to implement these principles and best practices as well as to uphold high standards of business integrity in all activities undertaken by the Group. This shall include a commitment to emulate good industry examples and to comply with the respective guidelines and recommendations in the conduct of the business activities of the Group.

The Board recognises that an effective risk management framework is essential for the Group in our quest to achieve our corporate objectives, especially with regard to our continued profitability and enhancement of shareholder value in today's rapidly changing market. Further details of our Governance and Risk Management policies can be found in the relevant sections of this Annual Report.

RESPONSIBLE CORPORATE PRACTICES

The Group continues to make good inroads by way of its corporate responsibility (CR) efforts on the Workplace, Marketplace, Community and Environment fronts. As a conscientious corporate citizen and a key player in the reinsurance, takaful and retakaful sectors, we continue to integrate responsible and sustainable practices into our total business operations.

Our CR agenda sees us undertaking sustainable activities that focus on education, knowledge and human capital development. This is helping to ensure a continuous pool of talent in the Group and industry, as well as the cultivation of dynamic insurance and takaful professionals. Through these efforts, we are not only helping develop the local insurance and takaful industry but are also contributing towards our nation's growth.

In 2014, we continued to roll out the MNRB Scholarship Fund, which aims to encourage and promote education in the fields of insurance and takaful, actuarial science and risk management. Our community efforts to date focus on equipping the younger generation to become leaders of tomorrow through scholarship programmes, seminars, workshops, study camps and sponsorships. All these initiatives are helping lay strong foundations for the younger generation in order for them to attain greater heights in the future.

Back in 2011, we created the Program Lestari Cemerlang MNRB, where the MNRB Group adopted a school as part of our effort to enhance the quality of education in rural areas. This programme, a two-year partnership between the MNRB Group and its selected school, aims to improve the academic achievements of students through extra educational activities and the setting up of learning facilities. The selected schools are typically secondary schools located in rural areas and the programme has benefited 2,634 students to date.

As mentioned in last year's Annual Report, on the professional front and in line with our aim of strengthening the capabilities of the local industry, Malaysian Re has developed a flood model for Malaysia which will allow companies to perform data analytics and flood simulations. We have called this model Re.Banjir. Companies that use the model will be able to perform flood simulations, loss estimations and make informed decisions on their business portfolio as well as their reinsurance programming. This is the way we are contributing to the market and this shall benefit the Malaysian insurance and takaful industry. The detail of these initiatives and the Group's other corporate responsibility efforts can be found in the relevant section of this Annual Report.

NEW DEVELOPMENT – ESTABLISHMENT OF RETAKAFUL DIVISION AT MALAYSIAN RE

On 22 April 2015, the Board of Directors of MNRB announced that Malaysian Re had received approval from Bank Negara Malaysia (BNM) to conduct general and family retakaful businesses under Section 10 of the Islamic Financial Services Act 2013 (IFSA) via the establishment of a retakaful division. Malaysian Re plans to commence underwriting its retakaful business once the operating license is granted by BNM. Arising from this new development, MRT would focus on consolidating and subsequently running-off its business until such time deemed appropriate for it to surrender its operating license to BNM. Moving forward, the retakaful business of the MNRB Group will be offered via the Retakaful Division at Malaysian Re.

The establishment of Retakaful division would enable the business to utilize the higher IFS ratings of 'A' (Fitch) and 'A-' (A.M. Best) from Malaysian Re to gain access to business which otherwise would not have been accessible due to the lower rating of 'BBB+' (Fitch) given to MRT in the past. In addition, the growth in Retakaful business volume has not been in tandem with the corresponding double digit growth in Takaful business due to the nature of the Takaful portfolio which demands much less Retakaful cover as compared to conventional reinsurance. Hence, the lack of Retakaful volume makes having a full-fledged stand-alone Retakaful operation difficult to sustain in the longer term. Despite the lack of Retakaful volume currently, we do see the future potential of the business albeit at a slower pace and we are in full support of the Government's efforts to make Malaysia as an International Islamic Finance Marketplace.

This division shall leverage on the proven technical expertise, IT systems and operations whereby combined resources would immediately provide better economies of scale. It also creates more efficient, consistent and cost-effective approach to the business. In terms of geographical diversification strategy, Retakaful business will be able to reach into the Middle East and North African (MENA) region through our subsidiary Malaysian Re (Dubai) Ltd (MRDL) in Dubai.

A CHALLENGING BUSINESS LANDSCAPE

Both fire and motor classes are currently governed by tariffs and plans to gradually abolish the tariffs are expected to take place on a staggered basis in 2016. Customers would then be charged premium/contribution rates reflective of the risks. Insurers and Takaful operators are gearing towards this market liberalisation and this is a move towards risk-based pricing. Abolition of the tariff would also encourage more product innovation and price differentiation, giving customers more choice offerings based on price and risk factors. To this end, Takaful IKHLAS is gearing itself towards its readiness to meet these challenges.

Changes are also taking place in other jurisdictions. In China, the soon to be introduced China Risk Oriented Solvency System (C-ROSS) aims to link capital requirements closely to underwritten risks and promote sound risk management practices across the industry. We have seen a move to shift placements with onshore reinsurers or international reinsurers with better ratings. Local insurer and reinsurers also have started to ask offshore reinsurers to provide collateral for reinsurance assets as this measure is also part of the C-ROSS regime. Regulatory changes are also taking place in Indonesia where the regulator aims at optimising reinsurance capacity within the country. This new regulation will increase local retentions considerably from 10% to a minimum of 25% for all lines of business and would translate into lower market share for international and offshore reinsurers. These developments require Malaysian Re to re-strategise its approach into these markets.

Under the Financial Services Act 2013 (FSA), MNRB Holdings Berhad (MNRB) has been designated as a Financial Holding Company (FHC) with effect from 1 July 2015. Section 115 of the FSA provides for BNM to specify standards on prudential matters to MNRB and its subsidiaries, which include but not limited to capital adequacy, liquidity and corporate governance while Section 116 of FSA provides BNM the power to issue written directions to MNRB and its subsidiaries in relation to the Group's business affairs.

The effect of the implementation of the Goods and Services Tax (GST) effective 1 April 2015 on the Insurance and Takaful industry is expected to be manageable although the impact on product pricing has not yet been seen. Life and Family products, with the exception of riders, are exempted from GST. The Group has put in place proper infrastructure and processes to handle GST compliance.

While the aforementioned key developments will pose challenges to the MNRB Group, we have taken the necessary steps to ensure that we are able to meet these challenges and at the same time meet regulatory compliance. We will endeavour to be conscious of market developments and be able to take advantage of business opportunities as they arise.

SHAREHOLDER VALUE CREATION

We have consistently maintained that capital preservation is a priority for the MNRB Group and we continue to propagate the importance of maintaining that principle. The need to further strengthen the capital position of the Group is more significant now as MNRB carries the role and responsibilities of a financial holding company which means MNRB has to maintain a certain level of capital adequacy and liquidity.

Strengthening the capital position is part of the Group's strategy in facing the challenging operating environment and dynamic regulatory landscape ahead. Furthermore, increasing industry competitiveness globally have seen more mergers and acquisitions taking place, resulting

in players with stronger capital base, larger international network and wider expertise. As such, it is crucial to strengthen the capital so that we can continue to support our subsidiaries to stay competitive in the industry and hence sustaining the Group's presence.

Against this backdrop, the Board is not recommending the payment of any dividend in respect of FY2015. Nevertheless, the Board remains committed to provide better returns to your dedicated investment in the forthcoming years.

Looking back five years ago when the risk-based capital (RBC) framework was first adopted, MNRB had taken a similar decision in favour of capital preservation for our subsidiary, Malaysian Re. Now, the Board is pleased to note that the decision has paid off as Malaysian Re has grown stronger in terms of its capital base. The Board believes that MNRB is now at a similar juncture and that the same prudent approach should be taken for the Group's corporate sustainability and until there is further clarity on the operating environment.

LOOKING AHEAD

Divergence in growth should continue to be the case for the world's economies with the US economy expected to play a crucial role in supporting global growth. The International Monetary Fund in July 2015 cut its 2015 global GDP forecast from 3.5% to 3.3% and the fund is looking at an acceleration of growth to 3.8% the year after. The downside risk to global growth is seen coming from China with the People's Bank of China surprising the market with a few unexpected monetary policy easing to boost the economy.

On the domestic front, the Malaysian economy is anticipated to grow between 4.5% and 5.0% with a central tendency forecast of 4.7% in 2015, well within the Government's GDP forecast of 4.5%–5.5%. While domestic demand is key to anchoring the economy in this challenging environment, household spending is likely to be affected by the implementation of GST that came into effect on 1 April 2015. The weakening of the local currency may provide a boost to Malaysia export's competitiveness but this view should also be balanced by external developments given that economic forecasts across major trading partners are not identical. With regard to the 11th Malaysia Plan, the Government has highlighted that it remains committed to fiscal consolidation and the budget deficit is expected to narrow to 0.6% of GDP by the year 2020 which should be positive for the Malaysian economy in the long-run. The downside risk to the ringgit remains as the current account surplus is likely to narrow and the likelihood of policy normalisation in the US would narrow any positive influence the ringgit may have. The inflationary effect from GST implementation should be partly offset by lower energy prices and BNM is forecasting headline inflation to be in the 2.0%–3.0% range in 2015 (2014: 3.1%).

Although insurers in Asia-Pacific are likely to face deteriorating economic conditions in 2015, growth prospects remain firm for life and general insurance products. Rising real estate and financial asset values are enabling insurers throughout the region to produce higher premium volume from increased protection levels. Prospects for commercial lines insurance remain strong, given the region's elevated catastrophe risk, the rise in infrastructure and home building across much of Asia-Pacific, as well as a low insurance penetration rate. This should have a positive impact on Malaysian Re as its overseas business averaged approximately 40% of its total revenue over the last two years. Nonetheless, the volatile foreign exchange rate in the current environment is a risk factor to Malaysian Re's overseas operations.

Despite the slower GDP growth forecast, prospects for Malaysia's insurance and takaful sectors are expected to remain stable in 2015 even as regulatory changes and market liberalisation set in. Ongoing premium expansion, sound capital buffers and stable underwriting margins will continue to support the risk profiles of most insurers and takaful operators. The growth potential of the takaful segment is likely to remain despite new regulations, supported by a growing range of products and wider distribution coverage. Against this backdrop, Takaful IKHLAS shall position itself to capitalise on any business opportunities.

Moving forward, the Board of Directors remains positive of the Group's prospects for the financial year and recognises the challenging operating landscape that lies ahead.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to the many parties who have rendered us their worthy support. We sincerely thank our valued shareholders for their unwavering support and confidence in the MNRB Group. My deep gratitude goes also to all our loyal customers, business partners, ceding companies and intermediaries, as well as Bank Negara Malaysia and the insurance and takaful associations, for their steadfast support and cooperation.

I would also like to thank YBhg. Datuk Mohd Khalil Dato' Mohd Noor, who retired from the Board on 1 June 2015 and YBhg. Dato' Syed Ariff Fadzillah Syed Awalluddin, who will not be seeking re-election at the forthcoming Annual General Meeting. We sincerely thank them for their guidance, dedication and worthy contributions to the Group during their time on the Board. Please join me in extending a warm welcome to the three new Board members, Puan Hijah Arifakh Othman, Encik Mustaffa Ahmad and Encik Md Adnan Md Zain. Puan Hijah Arifakh Othman was appointed to the Board of MNRB, while Encik Mustaffa Ahmad and Encik Md Adnan Md Zain were appointed to the Board of Malaysian Re with effect from 1 June 2015. My heartfelt thanks also go to my colleagues on the Board for their dedication, contributions and wise counsel. The Group and its subsidiaries are indeed fortunate to have such committed individuals to serve on the respective Boards and I certainly look forward to their untiring support.

The Board would like to record our sincere gratitude to Encik Mohd Sahimy Man, the former President & Chief Executive Officer (CEO) of MRT whose contract expired on 30 September 2014 and to Encik Hashim Harun, who retired as the President & CEO of Malaysian Re on 31 March 2015. We thank these gentlemen for their worthy contributions and wish them every success in their future endeavours.

We would like to extend a warm welcome to Encik Ahmad Ruhaizad Hashim who has been appointed as the new President & CEO of MRT on 2 January 2015 and Encik Zainudin Ishak who joined us on 1 April 2015 as the new President & CEO of Malaysian Re. We look forward to their insights and leadership.

Last but not least, I wish to convey my utmost gratitude to our loyal management team and employees who continue to work hard and exhibit a spirit of excellence in all that they do. We have come thus far because of the staunch commitment and resolute effort of our team and I am confident they will continue to help us to attain greater heights.

As the MNRB Group continues to make strong stride forward amidst a challenging marketplace, 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