MALAYSIAN BUSINESS REVIEW

MALAYSIAN LIFE INSURANCE REVIEW

The Life Insurance Division's total premium income increased slightly by 0.72% in its total premium income to RM1.40 billion (2005: RM1.39 billion), with sales largely from single premium business, in particular endowment and investment-linked plans, despite facing stiff challenges from its competitors. The sustainable premium was attributed to MAA's extensive network of branches countrywide (currently numbering 76), its sizeable agency force that underpin its distribution capacity and brand awareness. The current low interest rate regime and the shift in consumer preference from plain protection to savings/investments type of policies have contributed to the sales of investment-linked products and endowment plans.

In terms of single and annualised new business premiums, a measure of the year's new sales activity, the Life Insurance Division has registered a marginally growth of 3.97% to RM934.10 million (2005: RM898.4 million).

Despite the almost constant total premium income, the Life Insurance Division recorded a higher Profit Before Tax from RM12.25 million in 2005 to RM21.96 million in 2006. The higher profit before tax in 2006 was due mainly to reversal of provision for diminution in value of investments which was resulted from the better performance of stock market in the second half of 2006, albeit an increase in cash bonus payment and medical claims from medical policies. Notwithstanding the transfer of profit to Shareholders' Fund account, the overall Life Insurance Fund Surplus, remains healthy with a cumulative surplus carried forward of RM482.88 million as at 31 December 2006.

In its continuing effort on agency training, MAA has introduced the Chartered Insurance Agency Manager (CIAM) programme to its life insurance agents in 2006 with the objective to improve agency management skills, responsibilities of a leader, agency mission and goal, recruiting techniques and processes, supervision and training. MAA believes the agency force should reinvent themselves so that they are always ahead of the pack.

As at end of December 2006, MAA's agency force stood at 10,671 (2005: 12,773), a decrease after embarked on a clean-up exercise of systematically purging non-active agencies during the year. Moving forward, MAA's primary emphasis will be to grow its agency force by recruiting new consultants and leaders to further strengthen its distribution channels.

The Division has noted the public's changing demand trend towards investment-linked plans. The Group expects this trend to continue in the future, and is currently planning even more exciting investment-linked plans to meet this ever-increasing demand.

During the year, several new plans were launched that include the investment-linked Maaster Capital Guaranteed Plan, MAA Global Asset Capital Guaranteed Plan, personal accident plan – Senior Gold, ordinary life plan - 20 PayMaster Guaranteed, Freedom 20 Star and SmartLife Limited Pay.

MAA places great importance on meeting customers' satisfaction. It will continue to maintain its strategies and the various initiatives that it had already embarked on, including the implementation of a Customer Satisfaction Index (CSI) to enhance and raise the quality of our services to customers. Towards this end, in 2006, MAA has set up Idea Factory Project Team with the objective of facilitating its staff to generate new ideas for excellent customer services, develop innovative products and improve operating efficiency and productivity via organisational innovation using specific processes, thinking and business methodologies.

MALAYSIAN GENERAL INSURANCE REVIEW

The General Insurance Division recorded a slight drop of 2.63% in gross written premium to RM413.10 million (2005: RM424.25 million), albeit a lower premium growth of 3.23% in the General Insurance Industry in 2006 (2005: 7.80%).

Motor vehicle business premiums decreased by 6.58% to RM194.30 million (2005: RM207.99 million) mainly due to slower vehicle sales in the motor industry that has impeded this line of business. However, motor cycle business premium increased by 1.76% to RM42.20 million (2005: RM41.47 million). Furthermore, the stricter underwriting strategies implemented since 2004, have and will continue to limit growth in this segment albeit increasing the quality of motor portfolio. For the non-motor portfolios, the premiums increased marginally by 1.03% to RM176.60 million (2005: RM174.80 million).

Motor vehicle business continues to be the dominant class, with a portfolio share of 47.03% of the total gross premium income of the Division (2005: 50.35%). The Motor cycle business share has increased from 9.77% in 2005 to 10.21%. Non-motor portfolio share have increased, with Fire Insurance, Miscellaneous business and Marine business accounting for 15.45%, 20.98% and 6.32% respectively (2005: 15.31%, 22.18% and 4.82%).

During the year under review, the claim ratio increased to 71.83% (2005: 62.18%), mainly from higher claims recorded by the motor vehicle and motor cycle business.

Despite the higher claims registered, the Division recorded a lower Loss Before Tax of RM6.33 million from a loss of RM10.60 million in 2005. The improvement was due reversal of provision for diminution in value of investments during the year which was resulted from the better performance of the stock market in second half of 2006, despite an increase in claims ratio to 71.83% from 62.18% in 2005. The increase was mainly due to the management's decision to increase the confidence level of incurred but not reported claim reserve (IBNR) from 50.00% to 65.00% for the local insurance subsidiary, a gradual step-up increase in anticipation of Bank Negara Malaysia's proposal to implement Risk Based Capital Framework in 2009.

Since 2001, the General Insurance Industry has made proposals to the regulators to rebalance the motor vehicle insurance premium tariff, which was last revised in 1978, or 28 years ago. A revised tariff is needed to meet the ever increasing cost of vehicle spare-parts, vehicle theft frequencies and higher court awards. The proposed new tariff take into account new factors which were previously ignored, namely: geographical location, sex, age and claims history of the driver, and details of the vehicle's make and model. To-date, a decision on this matter is still pending.

In our continuing efforts to provide better services to our customers, The Division has rolled out the Accident Assistance Scheme in 2006, where on the scene assistance will be rendered for all called-in accidents and collisions, in addition to the existing MotorClub Breakdown Assistance service nationwide. At the same time, the Division has implemented the provision of free of charge comprehensive fire risk assessment and prevention services to its fire policyholders. This will help fire policyholders to enjoy better premium rates with improved and effective fire prevention systems and concurrently, help to mitigate incidence of fire occurrence.

Going forward, the Division will plan to increase its non-motor portfolio with focus on the profitable classes mainly fire, marine cargo, foreign workers and lastly contractor's all risks and engineering to take advantage of the infrastructure developments under the Ninth Malaysia Plan and other mega projects. On the same note, the Division will enhance its claims management strategies which amongst others include internet based workflow system on Motor OD (own damage) claims, maintaining the role of New Direct and Early Settlement Department in managing and settling new and small Motor Third Party Bodily Injury claims, intensify the recovery of motor theft claims by creating a wide recovery network and frequent visits to police stations by investigators, and regular training OD examiners for the improvement in work and technical knowledge.

MALAYSIAN UNIT TRUST REVIEW

In 2006, the Malaysian unit trust industry again registered a double digit growth with the total Net Asset Value (NAV) of funds under management expanded by 23.64% to RM121.77 billion (2005: RM98.49 billion).

During the year, MAAKL Mutual Bhd (MAAKL Mutual) added RM225.85 million to its total assets under management, raising further the total Net Asset Value of unit trust funds under its management as at end December 2006 to RM920.05 million (2005: RM694.20 million). With this growth of 32.53% in Net Asset Value, the company for the third consecutive year has outperformed the industry growth of 23.64% in 2006.

MAAKL Mutual, being one of the Malaysia's fastest growing unit trust managers, although the company is relatively young compared to other fund managers, launched 2 new funds during the year, namely MAAKL Dividend Fund and MAAKL Al-Umran. With the addition of these 2 new funds, MAAKL Mutual now offers a wide range of 11 conventional funds and 5 Islamic funds for its investors to build a well-diversified unit trust portfolio which matches their unique risk profile and investment goals as at end December 2006.

MAAKL Dividend Fund is an equity income deposit fund which aims to provide steady recurring income that is potentially higher than prevailing deposit rates coupled with attaining medium to long-term capital appreciation.

On the other hand, MAAKL Al-Umran is an Islamic balanced income fund seeks to produce medium to long-term capital appreciation, with investment predominantly in Syariah-compliant equities and Islamic fixed income instruments

With its impressive growth in funds under management over the last 3 years, MAAKL Mutual has turnaround to contribute positively to the results of the Group during the year with a profit before tax of RM865.46 million. The Group expects MAAKL Mutual to continue with its positive contribution trend in the years ahead, in line with the progressive growth of the unit trust industry.

Building a professional unit trust force is at the forefront of MAAKL Mutual's plans, to fulfill its vision to be the most trusted unit trust company by providing quality products and services for all Malaysian. As part of MAAKL Mutual's continuous effort to improve the quality of its advisers, it has deliberately not renewed those advisors who do not meet the quality criteria, with this the agency force stood at 1,015 agents (2005: 1,125 agents) as at end December 2006.

Beside equipping its unit trust advisers with the necessary knowledge-based tools, namely MAAKL Home Office that enable them to offer a higher level of service and professionalism to clients, MAAKL has embarked further in developing a process-based selling course – MAAKL Mutual's Signature Course to enable its advisers to be more professional in their approach to selling unit trusts and as well practising financial planning. The MAAKL Mutual's Signature Course is set on the MAAKL Mutual 6-Step Process that involves making services known to clients, analyse client's financial needs, goals and priorities, ascertain the client's ability to fund the key financial goal (s), choose the most appropriate model portfolio (s) for clients, look for the most appropriate unit trust funds and lastly evaluate and monitor client's performance regularly.

As part of MAAKL Mutual's continuous effort to make investing with MAAKL easy and convenient, in 2006 it has tied-up with Maybank to enable investors to make investment online through Maybank2u.com and later through Kawanku ATM (Automated Teller Machine) and Kawanku Phone Banking. In early part of 2007, MAAKL Mutual has further expanded the online investment facility to include RHB's online banking website. Additionally, in a move to be a one-stop financial planning company, MAAKL

Mutual has tied up with OSK Trustees Bhd (OSK) by offering will-writing services to its unitholders beginning January 2007.

The Group is optimistic about the future of this division. In 2007, MAAKL Mutual will be launching a variety of new funds, and will continue to focus exclusively on its long term strategy to develop advisers who are ethical and competent in their dealings. As at January 2007, the company further launched two new funds, namely MAAKL-CM Flexi Fund and MAAKL Al-Ma'mun. In February 2007, MAAKL made its historical milestone with total Net Asset Value of funds under management surpassed RM1 billion.

INTERNATIONAL OPERATIONS REVIEW

MAA International Assurance Ltd (MAAIA), the Labuan based offshore insurance and investment arm of the Group, recorded an increase of 4.01% in gross premium income to RM64.53 million (2005: RM62.04 million). However, the company recorded a loss before tax of RM1.59 million compared to a profit of RM7.32 million in 2005. The loss was due mainly to higher claims experience from ceded general reinsurance business, write off of debts due from associated company in Thailand coupled with loss arising from the disposal of this investment during the year.

MAAIA is also the investment holding company for the Group's international interest, which includes existing operations in Indonesia, Philippines and Thailand (the investment was disposed during the year). The disposal of the associated company in Thailand during was mainly due to high running costs and low revenue income which resulted in continuous losses coupled with intense market competition in the life insurance companies in Thailand in offering high agency compensation buy-out to recruit agents.

In November 2006, MAAIA launched new investment-link plan, namely MAAIA-Dominion Investment Plan in partnership with Switzerland's Protrust AG. The investment plan offers four exclusive funds – MAAIA-Domain PX2 USD Fund, MAAIA-Domain NX2 USD Fund, MAAIA-Domain PX2 Euro Fund and lastly MAAIA-Domain NX2 Euro Fund. These unique and innovative funds are designed to appeal to sophisticated, experienced and professional investors, to provide them with consistent and above average returns over the long term.

In October 2006, the Group via MAA International Investments Ltd, an offshore subsidiary company in Labuan, disposed its 15% interest in Hatton National Bank, which is listed on the Colombo Stock Exchange, Sri Lanka with some gross capital gain. The strategic disposal was timely in view of the prolonged political unrest in Sri Lanka.

In October 2006, the Group has also acquired a 42.86% interest in Columbus Capital Pty Limited (CCAU), a company incorporated in Australia, via its other offshore subsidiary company. CCAU's principal business activities are retail mortgage lending and loan securitization in Australia, in line with the Group's aspiration to diversify its income stream. In its first year start-up phase, CCAU has embarked in establishing loan management system, develop distribution network of mortgage managers, establish wholesale funding lines with financial institutions, identify target markets and set-up a scaleable infrastructure for growth in business volumes in subsequent years of operations.