BUSINESS OPERATIONS REVIEW

MALAYSIAN TAKAFUL REVIEW

In 2013, the Malaysian Family Takaful Division registered a 28.3% increase in total Gross Earned Contributions to RM268.2 million (2012: RM209.1 million), whilst the General Takaful Division recorded a 41.1% increase in total Gross Earned Contributions to RM215.8 million (2012: RM152.9 million).

The Shareholders' Fund of MAA Takaful recorded a lower Profit Before Taxation ("PBT") of RM13.3 million (2012: RM16.3 million), after taking into account a surplus of RM7.3 million (2012: RM9.8 million) transferred from the Family Takaful Fund and RM1.6 million (2012: RM6.8 million) transferred from General Takaful Fund.

The General Takaful Fund of MAA Takaful recorded a lower Surplus Before Taxation ("SBT") of RM2.9 million (2012: RM10.1 million) during the year under review. The lower SBT was affected mainly by higher net takaful benefits and claims, increased wakalah fee expenses and some allowance made for impairment loss insurance receivables.

The Family Takaful Fund of MAA Takaful also recorded a lower SBT of RM10.1 million (2012: RM12.3 million) before surplus transfer of RM7.3 million (2012: RM9.8 million) to the Shareholders' Fund. The lower SBT was a result of both higher net takaful benefits and claims, and wakalah fee expenses during the year under review. As provided in IFSA Act, the board of directors of MAA Takaful has approved the distribution of surplus on the Family Takaful Fund amounting to RM14.5 million (2012: RM19.6 million). This distribution is shared equally by the company (being the operator) and the Takaful participants in accordance with MAA Takaful's surplus distribution policy.

MAA Takaful expects the operating environment in the Takaful Sector to remain positive, although faced with challenges brought by the enacted IFSA and other imminent regulatory changes that are coming into effect, and the mandatory sharing of losses of the Malaysian Motor Insurance Pool as dictated by BNM, although the effective implementation date has been postponed from 2013 and yet to be announced.

Nevertheless, MAA Takaful will continue with its measures and efforts to achieve optimised internal processes with developed new systems and system enhancement, roll out new innovative products to meet the increasing consumers' demand, expand its customer base, recruit quality and productive agency force to provide higher level of professionalism and services to the policyholders, and establish new branches and distribution channels, to ensure the long-term success of the division.

MALAYSIAN UNIT TRUST REVIEW

In 2012, the Malaysian Unit Trust Industry registered an expansion with total Net Asset Value ("NAV") of funds under management increased by 13.8% to RM335.5 billion (2012: RM294.9 billion), outperforming the FTSE Bursa Malaysia Kuala Lumpur Composite Index which advanced by 10.5%.

As at end of December 2013, the total number of funds under management by MAAKL Mutual stood at twenty six (26). During the year under review, the total NAV of unit trust funds under management of MAAKL Mutual increased by 20.2% from RM2.18 billion as at end December 2012 to RM2.62 billion as at end December 2013. As at end December 2013, MAAKL Mutual's market ranking in terms of market share stood at number 9 among a total of 41 Unit Trust Management Companies in Malaysia.

As at end December 2013, the agency force of MAAKL Mutual stood at 1,301 agents (2012: 1,538 agents).

During the year under review, MAAKL Mutual continued to contribute positively to the results of the Group with a PBT of RM4.1 million (2012: RM2.5 million), contributed by the increase in initial service and management fee income of RM46.3 million (2012: RM38.0 million).

MAAKL Mutual's funds performed well during the year under review, with the receipt of 4 awards at The Edge-Lipper Malaysia Fund Awards 2014 for two (2) funds, namely "3-year and 5-year Mixed Assets - Flexible" for MAAKL-HW Flexi Fund, and "3-year and 5-year Mixed Asset - Flexible (Islamic)" for MAAKL-CM Shariah Flexi Fund.

On 31 December 2013, the Group together with the other vendors of MAAKL Mutual disposed the entire issued and paid up ordinary share capital of the company to Manulife for a total consideration of RM96.5 million ("Sale Consideration"), arrived at on a 'willing buyer-willing seller' basis.

INTERNATIONAL INSURANCE REVIEW

MAA International Assurance Ltd ("MAAIA"), the Labuan based offshore insurance and investment arm of the Group, recorded a Loss Before Taxation ("LBT") of RM8.2 million, (2012: PBT of RM10.2 million). The LBT during the year under review was due mainly to allowance made for impairment loss on advances extended to the General Insurance Business in Indonesia (before group-elimination) to support the company's business run-off expenses. The profit in 2012 arose mainly from a waiver of debt of RM14.9 million recorded by the General Insurance Fund under a General Reinsurance Treaty commutation agreement entered into with MAA Assurance in 2011.

During the year under review, the General Insurance Business in Philippines contributed positively to the results of the Group with PBT of RM1.5 million (2012: RM3.0 million). The lower profit in 2013 was due mainly to higher claims ratio of 59.8% (2012: 52.1%) particularly from the motor and fire class of businesses, arising from the several catastrophic typhoons which hit Philippines during the year.

BUSINESS OPERATIONS REVIEW
(continued)

In 2013, the General Insurance business in Indonesia posted negatively to the results of the Group with LBT of RM28.1 million (2012: RM27.1 million). The higher loss was resulted from business run-off effects with cessation of underwriting new and renewal businesses, premium refund for cancelled policies, impairment loss for insurance receivables and provision for staff retrenchment expenses, partly offset by the release of Incurred But Not Reported Claims during the year.

During the year under review, the General Insurance subsidiary company in Indonesia has submitted claim negotiation plan with claimants and reinsurers to the local insurance authority for consent, as part of the resolution plan for the business and financial viability of the entity. Towards this end, the claim negotiation plan is still in progress as at to date.

AUSTRALIAN MORTGAGE FINANCING REVIEW

The Group's 49% associated company in Australia, Columbus Capital Pty Ltd ("CCAU") which is in the business of retail mortgage lending and loan securitisation, recorded a PBT of RM3.4 million during the year under review, turnaround from the LBT of RM9.1 million in 2012. The profit arose mainly from higher interest revenue arising from the acquisition of the Origin Portfolio of approximately AUD2.2 billion in residential mortgages in September 2012, coupled with improved gross interest margin from an average 3.6% in 2012 to 8.4% during the year.

Nevertheless, Columbus will continue to manage its existing mortgage portfolios actively with interest pre-pricing the view to improve interest margins and simultaneously source for portfolio acquisition opportunities to grow its operations.

The Group intends to increase its equity stake in CCAU making it a subsidiary company to capitalise on its profit contribution. Towards this end, CCAU has submitted an application to the Foreign Investment Review Board ("FIRB") of Australia on 6 November 2013 to seek approval for the Company to increase its interest in CCAU up to 55%. To date, the application is still pending the decision of FIRB.