

BUSINESS OPERATIONS REVIEW

TAKAFUL BUSINESS (MALAYSIA) REVIEW

In 2015, the Malaysian Family Takaful industry recorded a moderate growth of 6.2% in total Net Contributions to RM5.1 billion (2014: RM4.8 billion, -0.4%), whilst the General Takaful business registered a 13.3% increase in total Earned Contributions to RM1.7 billion (2014: RM1.5 billion, +5.6%).

During the year under review, MAA Takaful recorded a 34.6% decrease in Family Takaful Net Earned Contributions to RM236.7 million (2014: RM361.8 million) mainly due to the decline from single contribution investment-linked products caused by lower new group mortgage business and shifting focus from investment-linked to non-investment linked business, whilst the General Takaful Net Earned Contributions increased by 44.3% to RM97.7 million (2014: RM67.7 million) with higher growth mainly from motor and fire classes of business.

The Family Takaful Fund of MAA Takaful recorded a lower Loss Before Taxation ("LBT") of RM4.7 million (2014: LBT of RM11.3 million). The lower loss was attributed by efforts taken during the year under review to reprice loss-making medical products in light of the high claims and escalating medical costs. Under the applicable Malaysian Financial Reporting Standards, losses in the Takaful risk fund will be taken up and recognised as such by the Takaful operators at the company level. Nevertheless, there was a surplus transfer of RM11.3 million (2014: RM11.0 million) from the investment-linked Takaful risk fund to the Shareholders' Fund during the year.

The General Takaful Fund of MAA Takaful recorded a PBT of RM0.6 million (2014: LBT of RM0.6 million). The PBT was contributed mainly by higher net earned contributions and write-back of impairment allowance on Takaful receivables. Notwithstanding this, the net Takaful benefits and claims ratio during the year was higher at 70.8% (2014: 51.9%), mainly from motor and personal accident classes of business.

The Shareholders' Fund of MAA Takaful recorded a lower PBT of RM7.0 million (2014: RM8.2 million), after taking into account the surplus transfer of RM11.3 million (2014: RM11.0 million) from the Family Takaful Fund and RM1.5 million (2014: Nil) from General Takaful Fund. The lower profit was due mainly to higher management expenses particularly staff costs, office rentals, agency commission and EDP expenses, etc.

MAA Takaful expects the operating environment in the Takaful Sector to remain competitive and challenging, in light of the ongoing regulatory changes and expected slower growth in the Malaysian economy in 2016.

Nevertheless, MAA Takaful will continue with strategic plans working towards improving internal processes on underwriting, product pricing, credit and cost controls, roll out new innovative products, expand customer base and distribution channels and maintain a quality and productive agency.

CONVENTIONAL INSURANCE BUSINESS (INTERNATIONAL) REVIEW

MAA International Assurance Ltd ("MAAIA"), the Labuan based offshore insurance and investment arm of the Group, recorded a LBT of RM3.6 million, (2014: LBT of RM12.9 million). The LBT was due mainly to an impairment allowance of RM1.6 million (2014: RM13.0 million) made in respect of advances extended to PT MAAG to support the company's business run-off expenses and an allowance of RM5.7 million made for estimated liquidation expenses of the said subsidiary. Nevertheless, these losses were partially offset by fair value gains from overseas investment properties. Since the second-half of 2014, MAAIA has remained as the investment arm of the Group.

PT MAAG recorded a lower PBT of RM0.7 million in 2015 (2014: PBT of RM17.0 million) for the eleven (11) months ended 30 November 2015 before the company was deconsolidated as a subsidiary following the appointment of liquidators. The profit was attributed mainly from reduction from claims reserve. In 2014, the profit was contributed mainly by an income of RM16.5 million arising from the waiver of claims liabilities from haircut negotiations.

During the year, the General Insurance Business in Philippines contributed positively to the results of the Group with a contributory Profit After Taxation ("PAT") of RM2.5 million (2014: RM2.1 million). The higher profit was due mainly to the 37.1% increase in gross premiums to RM114.2 million (2014: RM83.4 million), write-back of impairment loss for insurance receivables due to recoveries and improved investment performance.

MORTGAGE FINANCING BUSINESS (AUSTRALIA) REVIEW

The Group's 48% associate company in Australia, Columbus Capital Pty Limited ("CCA") which is in the business of retail mortgage lending and loan securitisation, recorded a share of PAT of RM1.3 million (2014: RM0.3 million) during the year. The higher profit is attributable in the main to improved gross interest margin of 13.5% (2014: 10.8%) and also lower operating expenses mainly Electronic Data Processing, legal and consultancy expenses compared to 2014.

On the back of the existing established infrastructure, CCA will continue to manage its existing mortgage portfolios with a view to manage the interest margins effectively and simultaneously intensify efforts to grow its business.