

# Chairman's Statement



On behalf of the Board of Directors, I am pleased to present the Annual Report and Accounts of the Group for the year ended 31 December 2006.

## OPERATING ENVIRONMENT

For the whole year of 2006, the Malaysian economy continued to sustain steady growth with Gross Domestic Product (GDP) expanded by 5.9% (2005: 5.3%). Underpinned by stronger consumer sentiment and sustained business confidence, the private sector again was the main contributor to the economic growth, led by strong expansion in the services and agriculture sectors, and reinforced by the turnaround in the mining and construction sectors.

Growth in the services sector was underpinned by increased finance and business activities, particularly in the new growth areas, as reflected in the finance, insurance, real estate and business services sub-sector which expanded by 7.1% in 2006 (2005: 5.7%). In particular, insurance activity remained high underpinned by increases in the medical and health insurance products as well as continued strong performance of the investment-linked products.

Riding on the positive business environment as the Malaysian Government and Bank Negara Malaysia (BNM) continued to adopt supportive macroeconomic policies to position the economy for sustainability and long-term growth, the Group, as a non-bank financial services group stands firmly poised to capitalize on the promising economy development.



## PERFORMANCE REVIEW

For the year under review, the Group's total operating revenue grew by 3.17% to RM2.28 billion (2005: RM2.21 billion). The Life Insurance Division's gross premium income increased marginally by 2.11% to RM1.45 billion (2005: RM1.42 billion) whereas the General Insurance Division registered a slight decrease of 1.59% in terms of total gross premium to RM452.64 million (2005: RM459.96 million).

The Group registered a lower profit before tax of RM3.11 million for the year under review, compared to the profit before tax of RM41.13 million in 2005. The Life Insurance Division and General Insurance Division contributing a profit before tax of RM34.32 million (2005: RM20.23 million) and RM5.58 million (2005: RM10.94 million) respectively. The lower profit in General Insurance Division was due mainly to higher claims ratio experienced during the year under review and provision made for certain non-performing loans. The loss in Shareholders' Fund was also due mainly to provision made for non-performing loans by non-insurance subsidiary engaged in credit business. During the year under review, the Group has implemented stringent provisioning policies to control these segments of operations.

In 2005, the Shareholders' Fund recorded higher other operating income mainly due to a substantial fair value gain from quoted equity investments in Sri Lanka by non-insurance subsidiaries.

During the year under review, the General Insurance Division experienced an increase in claims ratio to 70.87% from 59.02% 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.

As at 31 December 2006, the Group's total assets stood at RM7.17 billion, an increase of 9.47% over 2005 of RM6.55 billion.

## BUSINESS OPERATIONS REVIEW

For the year under review, the Group continues to remain focused in its four core operations, namely Malaysian Life Insurance Operations, Malaysian General Insurance Operations, Malaysian Unit Trust Operations and the International Operations. Details of their performance are separately discussed in the attached pages.

## DIVIDENDS

For the year ended 31 December 2006, the Board of Directors has recommended the payment of a first and final tax-exempt dividend of 2% (2005: 10%) to reward all the shareholders for their support and confidence to the Group.

The Group will strive to maintain an appropriate balance of providing shareholders with sustainable cash returns from dividends while conserving adequate funds for reinvestment that is necessary to enhance future profitability and the value of the Group.

## UPDATES ON RECENT CORPORATE PROPOSALS

The Group is pleased to provide the following updates:

- (a) MAAH announced on 29 September 2004 the corporate proposal on renounceable rights issue of up to 152.18 million New Irredeemable Preference Shares of RM1.00 each (IPS) (Rights IPS) together with up to 152.18 million free detachable Ordinary Shares of RM1 each (Ordinary Shares) (Bonus Shares) and up to 152.18 million free detachable Warrants (Warrants) on the basis of one (1) Rights IPS with one (1) free detachable Bonus Share and one (1) free detachable Warrant for every one (1) existing Ordinary Share held in the Company at an entitlement date to be determined later (Rights Issue of IPS). The Rights Issue of IPS was approved by the shareholders of the Company at the Extraordinary General Meeting held on 22 February 2005.

Given the uncertain sentiments in the Malaysian equity market prevailing then, MAAH with the approval of



MAAH, always caring for the customer.

the Securities Commission (SC) had extended the completion of the proposed Rights Issue of IPS twice, firstly from 3 June 2005 to 31 December 2005 and subsequently from 1 January 2006 to 30 June 2006.

On 3 May 2006, MAAH announced that after taking into consideration the current market sentiments and the market performance of the ordinary shares of MAAH, it has decided to abort the proposed Rights Issue of IPS.

Notwithstanding the abortion of the proposed Rights Issue of IPS, the Board of Directors on 3 May 2006 announced that MAAH will proceed with the Proposed Bonus Issue of up to 152.18 million new ordinary shares of RM1 each as fully paid on the basis of one (1) Bonus Share for every one (1) existing ordinary share held to the registered shareholders of MAAH at the close of business on an entitlement date to be determined and announced later (Proposed Bonus Issue).

The Proposed Bonus Issue will be issued via capitalization of up to RM152.18 million from the following:

- (i) up to RM11.74 million from share premium account; and
- (ii) up to RM140.44 million from retained earnings.

The Proposed Bonus Issue was approved by the shareholders of MAAH at the Annual General Meeting held on 21 June 2006.

On 19 July 2006, MAAH submitted an Application for listing of additional ordinary shares to be issued pursuant to the Proposed Bonus Issue to Bursa Malaysia Securities Berhad (Bursa Securities). The approval was obtained on 1 August 2006 from Bursa Securities. MAAH subsequently on 9 August 2006 announced 25 August 2006 as the Bonus Share entitlement date.

152.18 million new ordinary shares of RM1 each were subsequently allotted on 8 September 2006 pursuant to the Proposed Bonus Issue.

- (b) On 4 August 2006, MAAH announced the Proposed Issuance of Commercial Papers (CP) and/or Medium Term Notes (MTN) Programme of up to RM200 million ("Proposed Programme").

The Proposed Programme will comprise the issuance of CP with tenors ranging from one (1) month to twelve (12) months and/or MTN with tenors of more than one (1) year but not exceeding seven (7) years.

The proceeds from the Proposed Programme will be used in relation to financing MAAH's investment in Takaful business, to repay certain existing bank borrowings of MAAH and its subsidiaries, to finance redemption of its existing RM120 million Serial Fixed Rate Bonds maturing on 21 August 2007, to pre-fund the debt service reserve account to be established for the purposes of the Proposed Programme and to finance working capital of MAAH.

For the Proposed Programme, based on the Group's stable financial performance and prudent management, Rating Agency Malaysia (RAM) has assigned respectively long- and short-term ratings of A2 and P1 to MAAH.

Approval for the Proposed Programme was obtained on 28 August 2006 from the SC.

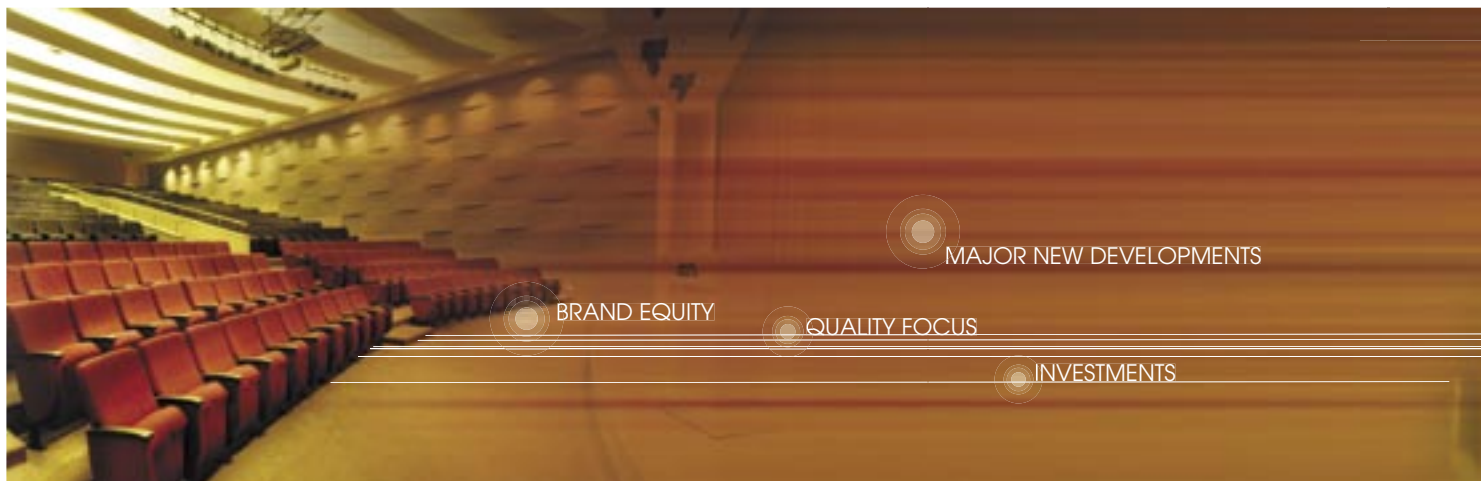
On 5 December 2006, MAAH submitted an application to the SC for the following variations to the principal terms and conditions of the Proposed Programme:

- (i) to secure the issuance under the Proposed Programme by a bank guarantee facility from DBS Bank Ltd, Labuan Branch (DBS Bank) up to the maximum aggregate principal amount of the United States Dollars equivalent to RM200 million; and
- (ii) to vary the utilization of proceeds of the Proposed Programme, where among others the MAAH's investment in Takaful business will be financed from internally generated fund

With the strength of the bank guarantee from AAA- rated DBS Bank added onto the Proposed Programme, RAM has assigned AAA(bg) rating to the first issuance of up to RM200 million with a tenure of up to 5 years of Medium Term Notes.



# Chairman's Statement (continued)



The SC has via its letter dated 22 December 2006 approved the above stated variations.

On 8 January 2007, MAAH successfully issued RM200 million nominal amount of Medium Terms Notes up to a tenure of 5 years.

## MAJOR NEW DEVELOPMENTS

### (a) MAA Takaful Berhad

On 3 March 2006, MAAH received BNM's approval for a new Takaful license for the joint-venture of MAAH and Solidarity Company BSC (C) (Solidarity), Bahrain.

Solidarity is a company incorporated under the laws and regulations of the Kingdom of Bahrain and engaged in Takaful business. It was set up in direct response to the growing demand for Takaful products across the Middle Eastern region. Solidarity operates in full accordance with the guiding principles of Syariah and provides a full range of Family and General Takaful products. With over US\$100 million in capital assets, Solidarity is the largest insurance company (in term of paid-up capital) in the Kingdom of Bahrain and the largest capitalized Takaful company in the world.

On 21 February 2006, a Joint-Venture Agreement was signed with Solidarity to form a joint-venture company to carry on the Takaful business in Malaysia. The joint-venture company will have a paid up capital of RM100 million with equity

interest of MAAH and Solidarity in the proportion of 75% and 25% respectively.

On 2 May 2006, a new subsidiary company namely MAA Takaful Berhad (MAA Takaful) was incorporated with an authorised share capital of RM150,000,000 comprising 150,000,000 ordinary shares of RM1.00 each of which RM2.00 have been issued and fully paid-up.

MAA Takaful has on 16 November 2006 submitted an application to the SC for the increase in its paid up capital.

The SC has via its letter dated 15 January 2007 approved the application.

To date, both MAAH and Solidarity have put in their respective share of equity capital into MAA Takaful.

The Group targets the Takaful business to commence operations in third quarter of 2007.

The Group expects the joint-venture Takaful company to breakeven in its first few years of operations leveraging on MAA's strong agency network of which about 40% or 7,000 of its life agency force are Bumiputra agents, coupled with its existing infrastructure which will help to attain a low-fix cost.

Lastly, the Group will capitalize on its takaful collaboration with Solidarity as a springboard into the global markets, especially the Islamic nations in the Middle East in the near future.

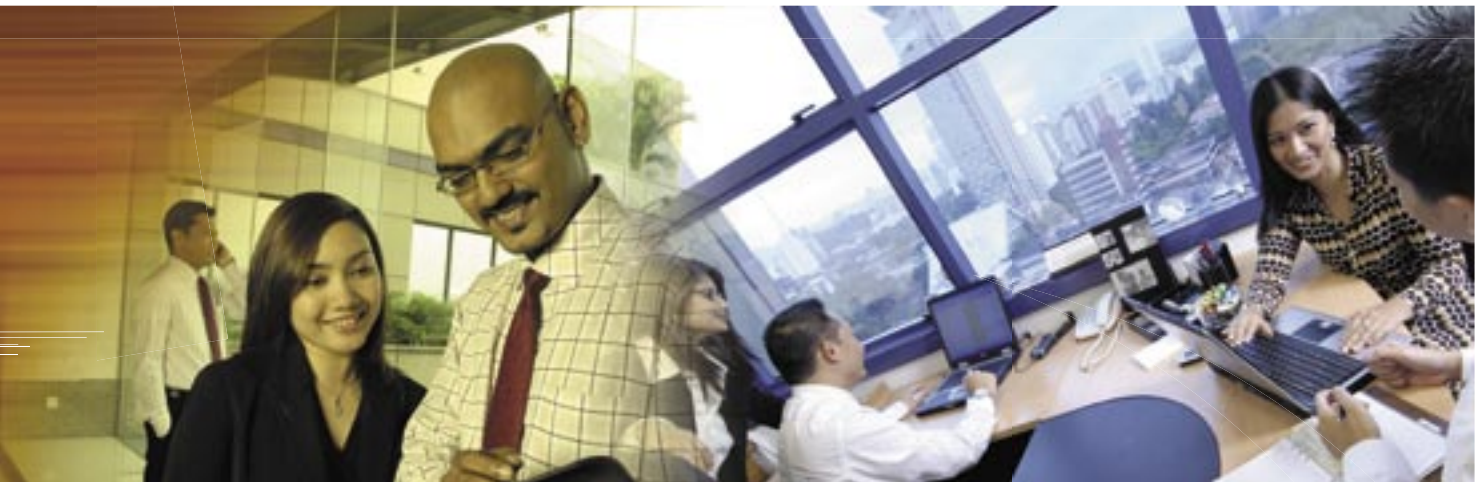
### (b) Columbus Capital Pty Limited

On 13 September 2006, MAA International Investment Ltd (MAAIL), a wholly-owned subsidiary of the Group acquired a shelf company by the name of Columbus Capital Singapore Pte Ltd (CCS), a company incorporated in Singapore which act as a special purpose vehicle for any future investment in the Group.

On 22 September 2006, CCS entered into a conditional subscription agreement with Columbus Capital Pty Limited (CCAU) to subscribe up to 20.0 million Series A Preference Shares at an issue price of AUD1.00 each, representing up to 50% equity interest in CCPL for a total cash consideration of AUD20.0 million or RM57.0 million equivalent (Proposed Subscription). Concurrently, CCS together with the founders of CCAU, had entered into a shareholders' deed to regulate their respective rights and obligations as members of CCAU. CCAU was incorporated in Australia.

The Proposed Subscription, in essence, comprise two (2) stages:

- (i) Stage 1 – subscription by CCS of 15.0 million Preference Shares at an issue price of AUD1.00 per share, representing 42.86% equity interest in CCAU for total cash consideration of AUD15.0 million, is expected to be completed by October 2006;
- (ii) Stage 2 – subscription by investor(s) or CCS of 5.0 million Preference Shares at an issue price of AUD1.00



per share, representing 12.5% of the enlarged equity interest in CCAU for total cash consideration of AUD5.0 million, will be completed on or before 300 calendar days of the completion of stage 1, which will be tentatively completed in August 2007.

The cash consideration of up to AUD20.0 million will be satisfied by way of bank borrowing and/or internal generated funds of the Group.

The proposed subscription will pave the way for the Group to venture into the business of retail mortgage lending and loan securitization in Australia, in line with the Group's aspiration to diversify its income stream.

Stage 1 of the Proposed Subscription was completed on 6 October 2006.

## **BRAND EQUITY**

The Group will continue with its philosophy of brand equity to maintain the strong corporate image that has developed to-date. This image has been the mainstay of our continued growth, and has been the pillar that has kept our clients and our agents loyal to us.

In this respect, ownership of our own office buildings throughout Malaysia with excellent visibility, television commercials, highway billboards and newsprint advertisements, as well as concerted public relations activities and charity programmes have provided our clients and agents with the confidence

to continue to place their trust in our Group.

Our corporate tag-line is well recognized, "Say Yes to MAA. Say Yes To Solid Financial Security".

## **QUALITY FOCUS**

The Group is also proud to report that the Malaysian insurance operation has for the last seven years been able to retain its ISO 9001 quality status. Its on-going focus on maintaining tip-top IT systems and internal processes, staff training and education programs, coupled with the adoption of Six Sigma programme since 2005 in its Malaysian Insurance operations, have helped to ensure that our clients and agents get the best possible service. Only through a focused effort on quality, can the Group guarantee our success in the future.

## **INVESTMENTS**

Following the better performance in the Kuala Lumpur Stock Exchange (KLSE) towards the second half of the year, the Group's total investment income increased by 68.32% to RM391.84 million (2005: RM232.80 million), after write back of provision for diminution in value of quoted investments of RM148.00 million during the year (2005: a provision made for diminution in value of quoted investments of RM90.96 million). Fixed income investments continue to accord for the bulk of the investment portfolio representing 82.61% of total investment income.

The Group will continue its conservative investment philosophy that emphasises capital preservation, profitability and consistent income flows to hedge against market volatility. Fixed income investments are expected to remain the core portfolio asset, with corporate bonds being the preferred instrument in view of their relatively better yields compared to fixed and cash deposits.

Moving forward we may reassess the investment portfolio of Life non-participating fund and the General fund by reducing the quoted equity portfolio to shelter the Group's earnings against the volatility of the equity market. Nevertheless, the Group will constantly review and revise its investment strategies to take advantage of the expected strong economic and financial environment in the coming years.

## **INFORMATION TECHNOLOGY**

In line with MAA's 5 year Information Technology (IT) Strategy Plan formulated in 2005, with the main aim to support future business requirements, MAA has successfully rolled out a few major systems during the year under review:

### **(1) Consultant Management Sales System (CMSS)**

This application system supports Life consultants by:

- increasing the consultant's productivity with the provision of necessary tools and up-to-date reports



- enhance the quality of services to customers and building more client relationship
- provide online communication interface with MAA

## **(2) Life e-Claim System**

This workflow based system simplifies mutual processing into computerised processing by:

- cutting down tedious manual document searching
- tracking status of claim file
- providing online approval interface for rapid claim processing turnaround.

## **(3) New General Insurance System Phase 2**

The system was implemented from a "customer-centric" focus with fully computerised processes to improve monitoring and reporting capabilities

## **(4) Online Motor Policy Printing**

The online motor policy printing allows agents who are connected online to issue motor electronic cover notes and print motor policies on the spot

## **VALUATION OF THE MALAYSIAN INSURANCE BUSINESS**

As in prior years, the Group has engaged an external actuary to compute the Appraisal Value of the Malaysian Life Insurance Business, following the same

valuation technique used internationally to value life insurance businesses. The Appraisal Value is the discounted cash flow of profits to the shareholder, from policies sold in the past (embedded value) and from future policy sales (structural value).

Based on the Appraisal Value, as set out on page 41 to 44, the Malaysian life insurance portfolio is assigned three (3) values, based on assumed future growth scenarios, namely RM2.09 billion, RM2.63 billion and RM3.37 billion.

If one were to value the Malaysian general insurance business at 85% of 2006 gross premium income of RM413.10 million, this would value the Division at RM351 million.

The combined life and general insurance divisions are thus valued at RM3.73 billion (Full Valuation), RM2.99 billion (Mid Valuation) and RM2.45 billion (Low Valuation).

The Board is constantly monitoring this valuation for the Malaysian insurance operations as it will be used as the base for any future merger or acquisition negotiations.

It is interesting to note that if MAAH were to take on the same valuation as its Malaysian insurance operations, the value for the Group's share price would be substantially higher than the prevailing share market price of RM1.76 per share as at 31 December 2006. If one included the year-end Shareholder Fund of MAAH of RM368.3 million, the corresponding value for Group's

shares would be RM13.47 per share (Full Valuation), RM11.03 per share (Mid Valuation) and RM9.26 per share (Low Valuation).

## **CORPORATE SOCIAL RESPONSIBILITY**

The Group also remains committed to its quest to be a responsible and caring citizen. Towards this end, the Group has set up MAA Medicare Kidney Charity Fund since 1994, with the aim to provide for cheaper kidney dialysis treatment cost and adopted The Budimas Charitable Foundation in 2002 with the objective of providing welfare to the under-privileged children and the poor.

The various activities carried out by MAA-Medicare Kidney Charity Fund and The Budimas Charitable Foundation during the year under review are separately discussed in the attached pages.

## **PROSPECTS**

BNM reported in its Annual Report 2006 that the Malaysian economy in 2007 is expected to remain favourable through sustained domestic demand and continued expansion in the investment activity, despite some moderation in the global economic conditions. The implementation of the Ninth Malaysia Plan projects which have already commenced in the fourth quarter of 2006 further reinforced this.

The Group expects 2007 to be even more challenging than ever in the increasing



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ACKNOWLEDGEMENT AND APPRECIATION

competitive business environment and the unrelenting pace of liberalisation of the Malaysian financial services industry with the implementation of the Financial Sector Masterplan by BNM.

Embracing all these challenges, the Group will continue its initiative to invest in the latest technologies to further enhance operations efficiency, strengthening distribution system, human resource and agency development and developing innovative products to improve further the quality of services to customers.

The Group is confident with its extensive network of branches, innovative products and services, strong distribution channels through agency and bancassurance and lastly its strong MAA Brand, will well position the Group to overcome the challenges in its path to achieving better results in the years ahead.

## ACKNOWLEDGEMENT AND APPRECIATION

On behalf of the Board of Directors, I would like to thank the management team and staff for their continued commitment, dedication and contributions to ensure the continued growth and success of the Group.

I would also like to take this opportunity to extend our appreciation to the regulatory bodies for their continued guidance and support; to our valued customers, agents, business associates and the shareholders for their invaluable

support, confidence and trust they have placed in us.

Finally, I would like to thank my fellow Board members for their stewardship and contribution to the Group.

**TUNKU TAN SRI ABDULLAH IBNI  
ALMARHUM TUANKU ABDUL RAHMAN**  
Chairman