12 April 2007
The Directors
Malaysian Assurance Alliance Berhad
22nd Floor, Menara MAA
12, Jalan Dewan Bahasa
50460 Kuala Lumpur

Dear Sirs

Introduction

We have been engaged by Malaysian Assurance Alliance Berhad ("MAA" or "the Company") to perform an appraisal valuation of its life insurance business as at 31 December 2006. The appraisal valuation was carried out based on a set of assumptions that the management of MAA consider reasonable and realistic, taking into consideration the past performance of MAA, its operating structure, the economic growth of Malaysia and the stage of development of the life insurance industry in Malaysia.

Assumptions

MAA has projected a total new business premium for the year 2007 of RM934 million. This includes RM560 million in premiums from the Single Premium Fixed Dividend Endowment Plan. Premium received for this FDE plan amounted to RM577 million in 2006.

The following set of assumptions has been used in the appraisal valuation:

i) Base year total new business (2007)

	Project New Business Growth in 2006	Projected Premium (RM million)
Conventional Business		
- Par	-19%	19
- Non Par	-6%	135
- FDE	-3%	560
Investment Linked Business		
- Regular Premium	20%	65
- Single Premium	20%	155
Total Projected New Business in 2007		**934**

ii) Subsequent New Business Growth (2008 onwards)

The range of expected subsequent new business growth is as follows:

Year	Range of expectation		
	Scenario A Low	Scenario B Medium	Scenario C High
2008-2016	10% p.a.	15% p.a.	20% p.a.
2016 onwards	3% p.a.	3% p.a.	3% p.a.

iii) Investment returns	Par Plans	7.0% p.a.
	Non Par Plans (excluding FDE)	6.5% p.a.
	FDE Plans (in-force)	5.5% p.a.
iv) Discount rates	Business in force	9% p.a.
	New business	12% p.a.

Appraisal Value

Due to the long-term nature of the life insurance business, reserves (the life fund) are set aside to meet future liabilities. Profits are only expected to emerge gradually over the years. An Appraisal Value takes into account the expected future cash flows and discounts future surpluses at a suitable rate. It is equal to the sum of the Embedded Value and the Structural Value.

The Embedded Value is the assessment of the present value of distributions that will accrue to the shareholders over the future lifetime of all existing policies.

The Structural Value is the assessment of the life business's ability to generate profits from its assets – as evidence by past performance – by continuing to write new business on profitable terms. It incorporates, among others, the value of the existing agency structure. It is based on the assumption that the projected mix of new business in 2007 and the profitability thereof is representative of the future flow of new business. Any change in the mix of new business (for example an increase in investment linked business at the expense of traditional business) would affect the valuation. It is also heavily dependent on the capitalization factor used to gross up the value of one year's business.

The Appraisal Value of MAA's life insurance business as at 31 December 2006 is as follows (RM million):

Range of expected business growth rate	Scenario A	Scenario B	Scenario C
Embedded Value:			
Conventional	414.49	414.49	414.49
Investment Linked	186.83	186.83	186.83
Total Embedded Value	**601.32**	**601.32**	**601.32**
Structual Value:			
Conventional	872.27	1,187.26	1,619.12
Investment Linked	622.18	846.85	1,154.89
Total Structual Value	**1,494.45**	**2,034.11**	**2,774.01**
Appraisal Value:			
Conventional	1,286.76	1,601.75	2,033.61
Investment Linked	809.01	1,033.68	1,341.72
Total Appraisal Value	**2,095.77**	**2,635.43**	**3,375.33**

The Appraisal Value has been calculated based on the above set of assumptions of new business growth and the Company's expected future experience regarding agency costs, termination rates, claim payments, management expenses, taxation and bonuses that are consistent with the Company's past experience.

The Appraisal Value excludes the value of the Shareholders' Fund and the General Insurance Business of the Company.

Reliance

In preparing this report, we have relied on an extensive range of information, qualitative and quantitative, supplied by the Company. We have relied where possible on written materials including descriptive, financial and statistical information, and we have supplemented our understanding by interviews and other discussions with executives of the Company. While we have reviewed all information supplied to us for reasonableness and consistency, we have relied on the Company for accuracy and completeness of all information supplied.

We have relied on the Company for assumptions as to the expected future growth of its business.

The following table sets out the Company's actual sales performance against that projected/targeted for each year.

% of Sales Target Achieved	2006	2005	2004	2003	2002
Ordinary Life (excluding FDE)	81%	79%	122%	74%	80%
Investment Linked	119%	56%	122%	23%	67%

Comments on Results

The Appraisal Value of the Company has reduced by 10% over the year to RM 2,096 million (at 9% base discount rate on Scenario Growth A) due to the change in the mix of new business projected.

The Embedded Value of the Life Fund has increased by 11% or RM60 million. This increase is contributed mainly due to new business achieved in 2006. In comparison, the Structural Value has reduced by 16% compared to last year. This is due to the lower levels of new business projected for conventional business in favour of investment-linked business. Further, within this business, there is a heavier weight on the single premium business which carries a thinner profit margin compared to regular premium business.

There is currently a Quota Share reinsurance arrangement with MAA International Assurance Ltd for some lines of business secured from 2000. This has been factored in our calculations.

Limitations

This report has been prepared at the request of the Directors of MAA for the purpose of disclosure of the Company's Appraisal Value in the Annual Report of MAA and MAA Holdings Berhad respectively and it may not be used for any other purpose.

This report has been prepared on the basis of the information provided to us and our understanding of the business of MAA. Nevertheless, the reader should be aware that future events cannot be predicted with certainty and, as a result, deviations from any financial estimates referred to in this report and pertaining to the future are normal and are to be expected.

The Appraisal Value has been calculated based on the current statutory reserving and capital requirements. In particular, that the solvency capital required for the whole life fund continue to be held within the participating fund statutory surplus. The impending change in the statutory reserving and solvency requirements is not yet finalized as at the date of this report, but is likely to increase the cost of capital.

The reader should also understand that an Appraisal Value is a subjective assessment and is cautioned that the figures in this statement should not be used as the sole basis for determining MAA's final value to an investor.

Yours faithfully

Zainal Abidin Mohd Kassim, FIA
Principal and Actuary
Mercer Zainal Consulting Sdn Bhd