

CHAIRMAN'S STATEMENT



TUNKU DATO' YAACOB KHYRA
Executive Chairman

“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 2015.”

OPERATING ENVIRONMENT

In 2015, global economic activity continued to expand at a moderate pace. The pace of growth in advanced economies remained constrained, whilst Asian economies were generally supported by domestic demand amid weak export performance. Consistent with this, the Malaysian economy grew by 5.0% (2014: 6.0%) in 2015, driven mainly by private sector demand.

Last year, the Malaysian Life Insurance and Family Takaful industry grew at a moderate rate, with total net premiums/contribution income, increasing by 4.5% (2014: 7.5%) to RM35.1 billion (2014: RM33.6 billion), supported by the continuing growth in investment-linked business by 9.4%. On the other hand, the Malaysian General Insurance and Takaful industry showed a growth in premium/contribution income of 5.5% (2014: 7.5%) to RM17.3 billion (2014: RM16.4 billion), on account of sustained motor vehicle sales.

PERFORMANCE REVIEW

As disclosed in the ensuing section, Update on Recent Corporate Proposals, the Group's disposed subsidiaries, namely MAACA Corporate Services Sdn Bhd and MAA Cards Sdn Bhd have been classified as “Discontinued Operations” in the financial statements for year ended 31 December 2015 following the applicable approved accounting standards.

Operating Revenue

For the year under review, the Group's Total Revenue decreased by 10.0% to RM484.1 million (2014: RM538.1 million), of which Continuing Operations recorded a decrease of 6.5% to RM483.7 million (2014: RM517.4 million) and Discontinued Operations recorded a decrease to RM0.4 million (2014: RM20.7 million).

Under the Conventional Insurance business segment, the General Insurance Division recorded a nominal Total Gross Earned Premiums of RM1,000 (2014: RM110,000), from our run-off business in Indonesia that commenced in 2013.

Under the Takaful Business, both the General Takaful and Family Takaful Divisions registered Gross Earned Contributions of RM277.6 million (2014: RM286.8 million) and RM250.7 million (2014: RM367.6 million) respectively.

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The Group's Shareholders Fund recorded Total Revenue of RM255.9 million (2014: RM220.2 million). Continuing Operations recorded an increase of 28.1% to RM255.5 million (2014: RM199.5 million) while Discontinued Operations recorded a decrease to RM0.4 million (2014: RM20.7 million).

Profit / Loss Before Taxation

The Group recorded a higher Profit Before Taxation ("PBT") of RM32.6 million for the year under review (2014: PBT RM19.2 million). Continuing Operations recorded a PBT of RM34.0 million (2014: PBT RM1.8 million) whereas Discontinued Operations recorded a Loss Before Taxation ("LBT") of RM1.4 million (2014: PBT of RM17.5 million).

In the Conventional Insurance space, the General Insurance Division comprising wholly of the Indonesian operations recorded a PBT of RM0.7 million (2014: PBT of RM17.0 million). On the other hand, the Life Insurance Division constituted by the Labuan based offshore insurance operations registered Nil contribution (2014: PBT RM183,000), reason being subsequent to the maturity of the last investment-linked bond fund in May 2014, the Labuan based offshore insurance operations did not roll out any new investment-linked products.

In the Takaful business, the General Takaful Division recorded a small PBT of RM0.6 million (2014: LBT RM0.6 million). The Family Takaful Division recorded a lower LBT of RM4.7 million (2014: LBT RM11.3 million) due mainly to the deficit in the non-investment linked Takaful risk fund stemming from higher claims for the medical portfolio. A compensating development was the surplus transfer of RM11.3 million (2014: RM11.0 million) to the Shareholder's Fund from the investment-linked Takaful risk fund.

The Group's Shareholders Fund recorded a higher PBT of RM36.1 million (2014: PBT RM14.0 million) after accounting for the RM11.3 million and RM1.5 million surpluses transferred from the Family Takaful Fund and General Takaful Fund respectively. The Continuing Operations recorded a PBT of RM37.5 million (2014: LBT RM3.5 million) and the Discontinued Operations recorded a LBT of RM1.4 million (2014: PBT RM17.5 million).

The higher profit from Continuing Operations for 2015 was mainly attributed by a net gain of RM48.3 million from the deconsolidation of the Indonesia operations and also higher surpluses transferred from Takaful funds.

For the Discontinued Operations, the profit for 2014 was contributed mainly by a write-back of RM12.5 million pursuant to the execution of a second settlement agreement with Zurich Insurance Company Ltd ("Zurich") on the sale of disposed subsidiary namely Malaysian Assurance Alliance Berhad (now known as Zurich Insurance Malaysia Berhad) and a gain of RM7.6 million from the disposal of another subsidiary.

As at 31 December 2015, the Group's Total Assets stood at RM1.5 billion (2014: RM1.6 billion) with Earnings Per Share ("EPS") of 8.3 sen (2014: 5.5 sen).

DIVIDENDS

During the year under review, the Company paid a first and second interim dividend of 3 sen per share under the single-tier dividend system on 30 April 2015 and 9 October 2015 respectively totalling RM17,785,936.

The Company paid a first interim dividend of 3 sen per share under the single-tier dividend system totalling RM8,712,698 on 31 March 2016 in respect of the financial year ending 31 December 2016.

BUSINESS OPERATIONS REVIEW

For the year under review, the Group's major operational segments were:

- Takaful Business (Malaysia)
- Conventional Insurance Business (International)
- Mortgage Financing Business (Australia)

Details of their respective performances are discussed separately in the attached pages.

UPDATES ON RECENT CORPORATE PROPOSALS

The Group is pleased to provide the following updates:

- (a) On 30 September 2011, the Company became an affected listed issuer pursuant to Practice Note 17 ("PN17") of the Listing Requirements whereby a listed issuer has suspended or ceased its major business, i.e. in this case the disposal of Malaysian Assurance Alliance Berhad (now known as Zurich Insurance Malaysia Berhad).

Nonetheless, the Company did not trigger any of the other prescribed criteria under PN17 of the Listing Requirements, such as consolidated shareholders' equity of 25% or less of the issued and paid up share capital, a default in payment by the Group, the auditors having expressed an adverse or disclaimer opinion on the Company's latest audited accounts, etc.

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Pursuant to Paragraph 8.04(3) of the Listing Requirements, the Company is required to regularise its condition by undertaking a regularisation plan. The regularisation plan was required to be submitted to Bursa Malaysia Securities Berhad ("Bursa Securities") on 30 September 2012, and was subsequently extended until 30 June 2016 via Bursa Securities' letters dated 18 February 2016, 4 August 2015, 23 March 2015, 21 October 2014, 11 March 2014, 1 August 2013 and 20 December 2012 ("Extension of Time").

The Extension of Time of up to 30 June 2016 for the Company to submit a regularisation plan is without prejudice to Bursa Securities' right to proceed to suspend the trading of the listed securities of the Company and to delist the Company in the event:

- (i) The Company fails to submit a regularisation plan to the regulatory authorities on or before 30 June 2016;
- (ii) The Company fails to obtain approval from any of the regulatory authorities necessary for the implementation of its regularisation plan; and
- (iii) The Company fails to implement its regularisation plan within the time frame or extended time frame stipulated by any of the regulatory authorities.

Upon occurrence of any of the events set out in (i) to (iii) above, Bursa Securities shall suspend the trading of the listed securities of the Company on the next market day after five (5) market days from the date of notification of suspension by Bursa Securities and delist the Company, subject to the Company's right to appeal against the delisting.

- (b) On 20 May 2015, MAA Corporate Advisory Sdn Bhd ("MAACA"), a wholly owned subsidiary of MAA Corporation Sdn Bhd ("MAA Corp"), who in turn is a wholly owned subsidiary of the Company, disposed its entire equity interest held in a dormant subsidiary, MAACA Corporate Services Sdn Bhd ("MAACACS") that has ceased operations for a total cash consideration of RM10, arrived at on a willing buyer and willing seller basis after taking into considerations the net assets of MAACACS as at 30 April 2015 of RM10.
- (c) On 16 June 2015, the Company announced that Bank Negara Malaysia ("BNM") had via its letter dated 15 June 2015 stated it has no objection in principle for the Company, Solidarity Group Holding BSC (Closed) ("Solidarity") (holding 25% equity interest in MAA Takaful Berhad ("MAA Takaful")) and Zurich to commence negotiations for the proposed disposal of 100% equity interest held in MAA Takaful ("Proposed Disposal"). The Company, Solidarity and Zurich would be required to obtain the prior approval of the Minister of Finance ("MOF"), with the recommendation of BNM, pursuant to the Islamic Financial Services Act 2013, before entering into any agreement to effect the Proposed Disposal.

On 30 November 2015, the Company announced that it has jointly with Solidarity and Zurich submitted an application to BNM for approval of the MOF pursuant to the Islamic Financial Services Act 2013 to enter an agreement for the Proposed Disposal. The said application is still being reviewed by BNM.

- (d) On 8 September 2015, MAA Corp and ePROTEA MSC Sdn Bhd (now known as Finexus Sdn Bhd) ("the Purchaser") had entered into a conditional Share Sale Agreement ("SSA") for the disposal of the entire issued share capital of MAA Cards Sdn Bhd ("MAA Cards") ("Sale Shares"). The completion of the SSA is inter alia, conditional upon the parties' obtaining all necessary consents, approvals or clearance from the regulatory authorities for the acquisition of the Sale Shares by the Purchaser. Subject to fulfillment of the conditions precedent under the SSA and upon completion of the disposal, MAA Cards will cease to be a subsidiary of the Group. The total consideration for the Sale Shares shall be the aggregate of RM1,000,000 and the amount equivalent to the final net current asset of MAA Cards on completion date.

On 21 March 2016, the Company announced that BNM has via its letter dated 18 March 2016 granted its approval for the disposal of MAA Cards. The Group has completed the disposal on 31 March 2016.

- (e) On 14 September 2015, the Company announced that PT MAA General Assurance ("PT MAAG"), a subsidiary of MAA International Assurance Ltd has received a letter dated 10 September 2015 from Otoritas Jasa Keuangan ("OJK"), the Indonesia Financial Services Authority, informing PT MAAG that its operating license has been revoked with effect from 3 September 2015. OJK performs its regulatory and supervisory duties over financial services activities including insurance activities in Indonesia. Based on the terms and conditions contained in the said letter, PT MAAG was required to appoint a liquidator or form a liquidation team within 30 days from the date of the revocation letter. PT MAAG has submitted an application to OJK to seek extension of time till end of November 2015 to appoint a liquidator.

On 30 September 2015, PT MAAG passed a members' resolution to approve the dissolution and winding up of the company. On 1 December 2015, Tuan Dharma Azhar Damanik, S.H. and Tuan Romanus Muda Kota, S.H. of SRD & Co Lawyers were appointed as liquidators to facilitate the members' voluntary winding up of PT MAAG.

Following the appointment of the liquidators, the Company relinquished its control and involvement in the operation and financial matters of PT MAAG to the liquidators. Accordingly, PT MAAG ceased to be a subsidiary of the Group with effect from 1 December 2015 and has been deconsolidated from the group consolidated financial statements on that date.

Other than as stated above, there were no other corporate proposals announced but not completed as at the reporting date.

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CORPORATE SOCIAL RESPONSIBILITY

Continuing from previous years, the Group discharges its corporate social responsibilities through 'MAA Medicare Charitable Foundation' and also its support for 'The Budimas Charitable Foundation'.

MAA Medicare Charitable Foundation provides quality kidney dialysis treatment at subsidised rates for the poor on a nationwide basis, and is currently in the midst of setting up a cardiac facility to provide treatment for heart disease for the poor. At present, over 800 underprivileged patients are being treated by the charity.

The Budimas Charitable Foundation provides for the welfare of underprivileged and poor children on a nationwide basis. At present, the charity manages a home with a 150 capacity, provides funding for other charitable homes caring for approximately 1,000 children, provides breakfast in local schools for 5,000 underprivileged students, and is setting up 8 libraries in rural 'Orang Asli' villages.

Details of the Group's Corporate Social Responsibility activities are discussed separately in the attached pages.

As always, the Group will remain committed to its quest to be a responsible and caring corporate citizen.

INDUSTRY DEVELOPMENTS

In 2015, BNM has continued to implement new guidelines and policies to regulate the industry, amongst these are:

- Introduction of New Products by Insurers and Takaful Operators – aims to improve the time-to-market new products or effect changes to existing products, promote sound risk management over the development, offering and marketing of new insurance products and ensure duty of care to customers.
- Management of Participating Life Business – sets out the requirements for effective management of participating life business to promote the sustainability of the business and the protection of policyholders' interests in relation to benefit payouts, bonus revisions, expense allocation, assets management, etc.
- Life Insurance and Family Takaful Framework – aims to promote innovation and a more competitive market supported by higher levels of professionalism and transparency in the provision of Insurance and Takaful products and services. The specific initiatives include firstly the gradual removal of limits on operational costs, secondly the diversification of distribution channels and thirdly strengthening market conduct to enhance consumer protection. These initiatives will be implemented in stages from end of December 2015 to 2019.
- Granting of Credit Facilities – sets out the requirements to be complied for the granting of credit facilities by Insurance and Takaful operators.

Also during 2015, BNM has issued a few concept papers for the Takaful operators. Among these are on Internal Capital Adequacy Assessment Process for Takaful Operators, Wakalah and Qard, etc. for industry feedback. All these impending proposals once implemented will undoubtedly change the way Takaful sector conducts its business in Malaysia.

On the external front, in the Response to the Consultation Paper on Insurance Capital Adequacy Framework ("ICAF") issued in July 2014 by Labuan Financial Services Authority ("Labuan FSA") based on feedback received from the industry players, Labuan FSA will proceed to develop and finalise the ICAF guidelines in phases with full implementation in 2018 for Insurance ICAF and 2019 for Takaful ICAF.

PROSPECTS

On 28 January 2016, the Malaysian government announced a Revised Budget 2016 where the projected Gross Domestic Product growth for 2016 was revised to 4.0% and 4.5% from the earlier forecast of between 4.0% and 5.0%, in anticipation that the Malaysian economy is expected to grow at a slower pace due to the uncertainties over global growth prospects and declining energy prices.

For the Group, it will continue to face strong competition in its Takaful operating environment in light of the enacted new regulations, further tightening of prudential standards and market liberalisation initiatives by the regulator. Notwithstanding this, the Group will continue its efforts to implement management action plans to expand existing business and improve profitability.

On the PN17 status of the Company, it is the Board's intention to maintain the listing status of the Company. Accordingly the Company is in the process of preparing a regularisation plan that takes cognizant of the effects of the proposed disposal of MAA Takaful for submission to Bursa Securities.

ACKNOWLEDGEMENT AND APPRECIATION

On behalf of the Board of Directors, I would like to thank the Management team and Staff for their 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 our valued customers, agents, business associates and the shareholders for the invaluable support, confidence and trust they have placed in us.

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

TUNKU DATO' YAACOB KHYRA
Executive Chairman