

MAA HOLDINGS BERHAD

NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2009

1. Basis of Preparation

The accounting policies and presentation adopted for the interim financial report are consistent with those adopted for the annual financial statements for the financial year ended 31 December 2008.

Bank Negara Malaysia has issued detailed guidelines under the Risk Based Capital ("RBC") Framework for insurers which became effective for the annual period beginning on or after 1 January 2009. Malaysian Assurance Alliance Berhad ("MAA"), a wholly owned insurance subsidiary company of the Company, has adopted and applied the new valuation basis for re-measurement of assets and insurance liabilities as specified in RBC Framework for the annual period beginning on 1 January 2009.

The RBC Framework does not have significant impact on the financial statements of the Group since the Group has early adopted Financial Reporting Standards 139 - Financial Instruments: Recognition and Measurement for the re-measurement at fair value of financial assets and financial liabilities.

2. Preceding Year's Audit Report

The preceding financial year's annual financial statements were not qualified.

3. Seasonal or Cyclical Factors

The Group's business operations are not significantly affected by any seasonal or cyclical factors.

4. Extraordinary Items

There were no extraordinary items for the current financial period under review.

5. Change in Accounting Estimates

There is no change in basis used for accounting estimates for the current financial period under review.

6. Debt and Equity Securities

There is no other issuance, cancellation, replacement, resale and repayment of debt and equity securities during the current financial period under review.

7. Dividend Payment

There is no dividend payment by the Company during the current financial period under review.

8. Segmental Reporting

The Group operates in three main business segments: -

- Life insurance - underwriting life insurance business, including investment-linked business
- General insurance – underwriting all classes of general insurance business
- Unit trust fund management – management of unit trust funds

Other operations of the Group mainly comprise investment holding, Takaful business, hire purchase, leasing and other credit activities, property management and investment advising, security and consultancy services, none of which are of a significant size to be reported separately for the current financial period under review.

Intersegment sales comprise property management, fund management, security and consultancy services provided to the insurance business segments on an arms-length basis.

| | Continuing operations | | | | | Discontinued operations | | Group |
|-------------------------------|----------------------------|----------------|------------------------|----------------------------|---|-------------------------|----------------|-----------------|
| | Life insurance | | General insurance fund | Unit trust fund management | Shareholders' fund and other operations | General insurance fund | Eliminations | |
| Investment-linked fund | Non-investment-linked fund | RM'000 | | | | | | RM'000 |
| <u>3 months ended</u> | | | | | | | | |
| <u>31.03.2009</u> | | | | | | | | |
| <u>Operating Revenue</u> | | | | | | | | |
| External revenue | 30,016 | 297,053 | 17,479 | 4,223 | 28,290 | 108,104 | - | 485,165 |
| Intersegment sales | - | 674 | - | - | 4,837 | 105 | (5,616) | - |
| Total operating revenue | <u>30,016</u> | <u>297,727</u> | <u>17,479</u> | <u>4,223</u> | <u>33,127</u> | <u>108,209</u> | <u>(5,616)</u> | <u>485,165</u> |
| <u>Results</u> | | | | | | | | |
| Segment results | (5,189) | (216,923) | (1,251) | (114) | 23,247 | 5,958 | (196) | (194,468) |
| Transfer from Life reserve | 5,189 | 216,923 | - | - | - | - | - | 222,112 |
| Profit/(loss) from operations | <u>-</u> | <u>-</u> | <u>(1,251)</u> | <u>(114)</u> | <u>23,247</u> | <u>5,958</u> | <u>(196)</u> | <u>27,644</u> |
| <u>3 months ended</u> | | | | | | | | |
| <u>31.03.2008</u> | | | | | | | | |
| <u>Operating Revenue</u> | | | | | | | | |
| External revenue | 76,180 | 308,192 | 11,638 | 9,179 | 14,688 | 99,365 | - | 519,242 |
| Intersegment sales | - | 831 | - | - | 4,381 | 93 | (5,305) | - |
| Total operating revenue | <u>76,180</u> | <u>309,023</u> | <u>11,638</u> | <u>9,179</u> | <u>19,069</u> | <u>99,458</u> | <u>(5,305)</u> | <u>519,242</u> |
| <u>Results</u> | | | | | | | | |
| Segment results | (43,657) | (89,430) | 133 | 763 | (23,247) | (16,984) | (130) | (172,552) |
| Transfer from Life reserve | 43,657 | 89,430 | - | - | - | - | - | 133,087 |
| Profit/(loss) from operations | <u>-</u> | <u>-</u> | <u>133</u> | <u>763</u> | <u>(23,247)</u> | <u>(16,984)</u> | <u>(130)</u> | <u>(39,465)</u> |

9. Carrying Amount of Revalued Assets

Investment properties and land and buildings of the Group have been carried at revalued amount at the financial year ended 31 December 2008. These revalued amounts have been carried forward to the current financial period.

10. Material Subsequent Events

There were no material subsequent events from the end of the current financial period under review to the date of this interim report.

11. Changes in Composition of the Group

On 13 January 2009, the Board of Directors of Company announced that its wholly owned subsidiary, MAA Corporation Sdn Bhd had on the same day disposed its entire equity in a dormant subsidiary, Maple Eldercare Sdn Bhd, for a cash consideration of RM10, being the paid up capital of the company.

12. Contingencies

- (a) In the normal course of business, the insurance subsidiaries of the Company incur certain liabilities in the form of performance bonds and guarantees on behalf of customers. No material losses are anticipated as a result of these transactions.

Details of the Group's contingent liabilities are as follows: -

| | <u>As at</u> <u>31.03.2009</u> | <u>As at</u> <u>31.12.2008</u> |
|----------------------------------|-----------------------------------|-----------------------------------|
| | RM'000 | RM'000 |
| Performance bonds and guarantees | <u>15,633</u> | <u>141,641</u> |

- (b) During the financial year ended 31 December 2005 ("FY 2005"), Meridian Asset Management Sdn Bhd ("MAM") a subsidiary company had commenced legal proceeding against one of its custodian of its fund under management to recover, inter alia, the loss of investment moneys of its clients, Malaysian Assurance Alliance Berhad ("MAA") and Kumpulan Wang Amanah Pencen ("KWAP") of RM19.6 million and RM7.3 million respectively placed with the custodian ("Custodian"). The Custodian had filed an Application under Order 14A of the Rules of High Court ("Order 14A Application") to dismiss the case but the Order 14A Application was dismissed by the Court. The Custodian has filed an appeal against the decision. On 26 June 2008, the Custodian Application for Stay of Proceedings was dismissed with cost and the Court had fixed 16 September 2008 for Pre Trial Case Management. On 16 September 2008 the Court directed the matter to be tried together with MAA's case. On 23 January 2009, the Court had allowed MAM's application to amend the Statement of Claim to include the damages suffered by MAM but disallowed the amendment to include an associate company of the Custodian as the Second Defendant. The matter is now fixed for case management on 9 June 2009.

MAM has also during FY 2005 commenced legal proceedings against its former employee and other related parties to the former employee to recover, inter alia, the loss of investment moneys of its clients, MAA and KWAP together with interest and general damages. The matter is now fixed for Pre Trial Case Management on 30 June 2009.

MAA has during the financial year ended 31 December 2006 commenced legal proceeding against the Custodian for negligence to recover, inter alia, its loss of investment moneys amounting to RM19.6 million. The Custodian has served a Third Party Notice to bring MAM as a third party to the legal proceedings. The case is now fixed for Pre Trial Case Management on 9 June 2009.

In November 2007, KWAP had commenced a legal proceeding against MAM to recover, inter alia, its loss of investment moneys amounting to RM7.3 million together with interest. KWAP had filed an Application under Order 14 of the Rules of the High Court ("Order 14 Application"). The Order 14 Application was dismissed by court on 23 September 2008. The Pre Trial Case Management is now fixed for mention on 8 June 2009.

The directors of MAA Holdings Berhad, supported by legal advice to MAM, are of the opinion that MAM has a good chance in both their cases against the Custodian and the former employee and other parties related to the former employee. Its solicitors are also of the opinion that MAM has a good defence to the case taken by KWAP against MAM and even if MAM is found to be liable for the loss, it would be able to recover the same from the Custodian and/or its former employee and other parties related to the former employee. However, for prudence purposes, MAA has made full allowance of RM19.6 million relating to its investments in the financial year ended 31 December 2005. This allowance remains in the current financial year.

13. Capital Commitments

Capital commitments not provided for in the interim financial report as at 31 March 2009 is as follows:

| | |
|---------------------------------|---------------|
| | RM'000 |
| Approved and contracted for | <u>21,249</u> |
| Analysed as follows: - | |
| - property, plant and equipment | 2,899 |
| - investment properties | <u>18,350</u> |

14. Taxation

CONTINUING OPERATIONS

| | <u>3 months ended</u> | | <u>3 months ended</u> | |
|--------------------------|-----------------------|-------------------|-----------------------|-------------------|
| | <u>31.03.2009</u> | <u>31.03.2008</u> | <u>31.03.2009</u> | <u>31.03.2008</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Current tax</u> | | | | |
| Current financial period | 746 | 1,062 | 746 | 1,062 |
| <u>Deferred tax</u> | | | | |
| Current financial period | 309 | (6,010) | 309 | (6,010) |
| Tax expenses/(income) | <u>1,055</u> | <u>(4,948)</u> | <u>1,055</u> | <u>(4,948)</u> |

DISCONTINUED OPERATIONS

| | <u>3 months ended</u> | | <u>3 months ended</u> | |
|--------------------------|-----------------------|-------------------|-----------------------|-------------------|
| | <u>31.03.2009</u> | <u>31.03.2008</u> | <u>31.03.2009</u> | <u>31.03.2008</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Current tax</u> | | | | |
| Current financial period | 638 | - | 638 | - |
| <u>Deferred tax</u> | | | | |
| Current financial period | 109 | (4,978) | 109 | (4,978) |
| Tax expenses/(income) | <u>747</u> | <u>(4,978)</u> | <u>747</u> | <u>(4,978)</u> |

For the current financial period under review, the effective tax rate is lower than the statutory tax rate due mainly to no recognition of deferred tax liabilities on the reversal of fair value loss of RM25.3 million arising from interest rate swap.

15. Profit/(loss) on Sale of Unquoted Investments and/or Properties

The profit from sale of unquoted investments and investment properties by the insurance subsidiaries for the current financial period amounted to RM2.9 million.

16. Quoted Securities

There were no purchases or disposals of quoted securities by the Group other than by the insurance subsidiaries, which are exempted from disclosure of this information.

17. Status of Corporate Proposals

On 10 November 2008, the Company announced the entering into a non-binding memorandum of understanding ("MOU") between Malaysian Assurance Alliance Berhad ("MAA") and AMG Insurance Berhad ("AMG") to formalise discussions on the proposed acquisition by AMG of the General Insurance Business of MAA at a headline price of RM274.8 million (subject to adjustments), and the acquisition of a 4.9% stake in MAA Takaful Berhad for a total consideration of RM16.2 million, equivalent to RM3.30 per share (collectively "Proposed Transactions").

The Proposed Transactions is subject to the approvals being obtained from the followings:

- (i) Bank Negara Malaysia ("BNM") for the scheme of transfer under the business transfer agreement;
- (ii) Minister of Finance, based on the recommendation of BNM, pursuant to the Insurance Act, 1996;
- (iii) Foreign Investment Committee (if required);
- (iv) Securities Commission ("SC") (if required);
- (v) Malaysian High Court for the confirmation of scheme of transfer;
- (vi) Shareholders of the Company

On 26 February 2009, the Company announced that both MAA and AMG are currently working towards finalising a business transfer agreement ("BTA") in relation to the proposed disposal of the General Insurance Business of MAA prior to the submission of the said agreement to BNM for approval.

On 24 April 2009, the Company announced that the headline price has been revised to RM254.83 million (subject to adjustments) and an application to BNM seeking its approval for the proposed disposal of General Insurance Business of MAA to AMG ("the Proposed Disposal") has been submitted. The execution of the BTA is subject to BNM's approval which is currently pending. The Company and MAA have also granted AMG an extension of 120 days to the exclusivity period under the MOU.

On 27 April 2009, the Company has submitted an application to the SC on the Proposed Disposal.

Other than as stated above, as at the date of this report, there is no corporate proposal that has been announced but not completed as at 22 May 2009 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

18. Group Borrowings

The Group borrowings include:

| | <u>As at</u> <u>31.03.2009</u> RM'000 | <u>As at</u> <u>31.12.2008</u> RM'000 (Audited) |
|------------------------------|---|--|
| <u>Short term</u> | | |
| Term loan – secured | 10,000 | 10,000 |
| Medium terms notes – secured | 30,000 | - |
| Bank overdraft – unsecured | 11,499 | 11,382 |
| | <u>51,499</u> | <u>21,382</u> |
| <u>Long term</u> | | |
| Term loan – secured | 10,000 | 10,000 |
| Medium terms notes – secured | 170,000 | 200,000 |
| | <u>180,000</u> | <u>210,000</u> |
| Total Group Borrowings | <u>231,499</u> | <u>231,382</u> |

19. Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 22 May 2009 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

20. Changes in Material Litigation

There were no material litigations as at 22 May 2009 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

21. Comparison with the Preceding Quarter's Results

During the current financial quarter under review, the Group registered a profit before taxation of RM25.2 million, of which the continuing operations registered a profit before tax of RM18.2 million (2008: profit before taxation of RM7.5 million) and the discontinued operations (Malaysian General Insurance Business) registered a profit before taxation of RM7.0 million (2008: loss before taxation of RM13.2 million), as compared to a loss before taxation of RM5.7 million in the preceding financial quarter.

For the current financial quarter under review, the higher profit before taxation was mainly due to higher other operating income recorded by the Shareholders' Fund, resulted from a reversal of fair value loss of RM25.3 million on the interest rate swap transaction. FRS 139: Financial Instruments – Recognition and Measurement requires the calculation of the Mark-To-Market value of the interest rate swap, with the resulting fair value gain or loss arising thereon to be accounted for in the income statement at the end of each reporting month. The reversal of fair value loss in the current financial quarter was mainly due to improvement in the market condition of the US municipal bond.

For the current financial period under review, consistent with the prior years' practice, no profit/loss was transferred from/to the Life Insurance Fund to the Shareholders' Fund as such the transfer is only done at the financial year end.

22. Review of Performance

For the three (3) months ended 31 March 2009, the total operating revenue of the Group decreased by 6.5% to RM485.2 million (2008: RM519.2 million). The Group recorded a profit before taxation of RM25.2 million compared to a loss before taxation of RM44.1 million in previous financial year's corresponding period.

The Shareholders' Fund recorded a profit before taxation of RM21.7 million (2008: loss before taxation of RM24.3 million). The General Insurance Division recorded a profit before taxation of RM5.9 million (2008: loss before taxation of RM15.1 million), of which the continuing operations registered a loss before taxation of RM1.1 million (2008: profit before taxation of RM0.3 million) whereas the discontinued operations registered a profit before taxation of RM7.0 million (2008: loss before taxation of RM15.4 million). The discontinued operations of the General Insurance Division represent the General Insurance Business of MAA classified as such to comply with FRS 5: Non-Current Assets Held For Sales and Discontinued Operations following announcement by the Company as disclosed in note 17 of the report.

The profit in Shareholders' Fund was due mainly to reversal of fair value loss of RM25.3 million (2008: additional fair value loss of RM26.0 million) arising from an interest rate swap transaction resulted from improvement in the market condition of the US municipal bond.

The General Insurance Division registered an increase of 12.7% in terms of total gross premium to RM120.4 million (2008: RM106.9 million). The gross premium from the continuing operations recorded an increase of 47.0% to RM17.2 million (2008: RM11.7 million) and the discontinued operations' gross premium increased by 8.4% to RM103.2 million (2008: RM95.2 million).

The gross premium of local General Insurance Division has increased by 8.4% to RM103.2 million due mainly to increase in motor premium. The local General Insurance Division's overall net claim ratio improved to 67.5% from 75.1% in the previous financial year's corresponding period.

The local General Insurance Division has also recorded a net other operating income of RM3.0 million (2008: net other operating expenses of RM13.8 million) due mainly to write back of provision made for diminution in value of quoted investments amounted to RM0.8 million (2008: provision for diminution in value of RM14.3 million) arising from the better performance of the stock market.

The Life Insurance Division's gross premium decreased by 16.9% to RM273.7 million (2008: RM329.2 million), mainly from the decrease in first year and single premium from investment-linked products. The decline in sale of investment-linked products was mainly due to unfavorable investment environment and economic condition. For the current financial period under review, the Life Insurance Division recorded a net surplus before changes in policy reserve of RM37.1 million (2008: net deficit of RM142.1 million). The surplus was mainly due to lower provision made for diminution in value of quoted investments amounted to RM0.2 million (2008: provision for diminution in value of RM155.0 million) by the Life Insurance Division of the local insurance subsidiary company arising from the better performance of the stock market

However, consistent with the prior years' practice, no profit/loss was transferred from/to the Life Insurance Fund to the Shareholders' Fund as such the transfer is only done at the financial year-end.

23. Prospects

In view of the global financial and economic crisis, the Group expects the operating environment in the financial services sector to become more challenging and competitive. Notwithstanding this, the Group will continue its efforts to implement management action plans to re-strategise its business model and improve asset quality.

Barring unforeseen circumstances, the Group expects its performance for the current financial year to improve.

24. Profit Forecast

This note is not applicable.

25. Dividends

The Board of Directors does not recommend the payment of any interim dividend for the current financial period.

26. Earnings/(Loss) Per Share

| | <u>3 months ended</u> | | <u>3 months ended</u> | |
|--|-----------------------|-------------------|-----------------------|-------------------|
| | <u>31.03.2009</u> | <u>31.03.2008</u> | <u>31.03.2009</u> | <u>31.03.2008</u> |
| <u>Attributable to the Equity Holders of the Company:</u> | | | | |
| Net profit/(loss) for the financial period (RM'000) | | | | |
| - Continuing operations | 17,703 | (23,505) | 17,703 | (23,505) |
| - Discontinued operations | 6,273 | (10,408) | 6,273 | (10,408) |
| | <u>23,976</u> | <u>(33,913)</u> | <u>23,976</u> | <u>(33,913)</u> |
| Weighted average number of ordinary shares in issue ('000) | 304,354 | 304,354 | 304,354 | 304,354 |
| Basic earnings/(loss) per share (sen) | | | | |
| - Continuing operations | 5.82 | (7.72) | 5.82 | (7.72) |
| - Discontinued operations | 2.06 | (3.42) | 2.06 | (3.42) |
| | <u>7.88</u> | <u>(11.14)</u> | <u>7.88</u> | <u>(11.14)</u> |

By Order of the Board
Lily Yin Kam May
Yeo Took Keat
Company Secretaries

KUALA LUMPUR
DATE: 29 May 2009
File: MAAH – 1QtrNotes-310309