



MAA GROUP BERHAD

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Our Ref: MAAG/FIN/AGM/2016

17 June 2016

Minority Shareholder Watchdog Group
Tingkat 11, Bangunan KWSP,
No. 3, Changkat Raja Chulan,
Off Jalan Raja Chulan,
50200 Kuala Lumpur

Attention: Puan Lya Rahman
General Manager – Corporate Services

**Re: Eighteenth (18th) Annual General Meeting (AGM) Of MAA Group Berhad
("MAAG" Or "The Company")**

We refer to your letter dated 13 June 2016. We thank you for the pertinent observations and are pleased to address the same in the following paragraphs.

Strategic & Financial Matters

- 1) **With the eventual disposal of the Takaful business, the Group's remaining businesses would be in general insurance, retail mortgage lending and loan securitisation.**

Could the Board share with the shareholders when and where the Group would deploy the proceeds from the disposal of the Takaful business to Zurich Insurance Berhad.

Answer:

In line with the intention of the Board to maintain the listing status of the Company, a substantial portion of the sale proceeds arising from the disposal of MAA Takaful Berhad ("MAA Takaful") will be deployed to acquire new businesses to enhance the Group's earnings profile, regularize its financial condition and to address its PN17 status.

In addition, to reward the existing shareholders of the Company for their continuous support, the Board also proposes to declare an interim special dividend of RM0.35 per MAAG share. This will be paid on the entitlement date to be announced after the completion of MAA Takaful's disposal.

Accordingly, the gross sale proceeds of RM393.75 million (being the Company's 75% share of the MAA Takaful sale proceeds), subject to price adjustments and the terms and conditions of the Sale and Purchase Agreement, are intended to be utilised in the following manner:

Deployment Activity	Expected Timeframe For Utilisation	Amount RM'000
Proposed Special Dividend	Within 6 months from the Completion Date	100,761
Future investment opportunity(ies)/ Prospective new business(es) to be acquired	– Within 24 months from the Completion Date	196,739
	– Within 24 months from the receipt of the Retained Consideration	93,750
Estimated selling expenses	Within 1 month from the Completion Date	2,500
Total Gross Sale Proceeds Raised		393,750

The Company has been evaluating several business opportunities over the last 2 years. Whilst the Board has not identified any firm acquisition target as yet, it is currently pursuing/assessing opportunities in the education and manufacturing business sectors. Now that the Group will be exiting from the Bank Negara Malaysia regulated financial services sector once the disposal of MAA Takaful is completed, we will enjoy the added advantage of being able to pursue opportunities outside of the tightly regulated financial services sector when addressing the issue of the PN17 status of the Company.

The emphasis will be on securing the right fit in terms of industry type/business sector, growth potential, sustainable profits, business and operating risks, etc for strategic investments where we can create value in the medium term as we have successfully demonstrated in the recent past.

The Company will exercise the required degree of caution given the current slowdown in both domestic and global markets but the Board is mindful of the time constraint imposed by Bursa Securities Malaysia Berhad to submit a self regularisation plan.

2. **What is the latest ranking of the Group's general insurance company in the Philippines insurance industry in term of written premium and profitability? Please explain how the Group would grow the business as the insurance company had recorded higher profit after tax ("PAT") of RM2.5 million in FY2015 as compared to PAT of RM2.1 million in FY2014.**

Answer:

As at end December 2015, the general insurance industry in the Philippines comprised of 69 players. In terms of total Gross Premium Written in FY2015, MAA General Assurance Philippines, Inc ("MAAGAP") ranked a credible 12th. Given this significant market positioning and its unbroken 11 year track record of profitable operations, it is the Group's intention to accelerate the growth of MAAGAP by seeking additional distribution partners particularly in the area of bancassurance. Towards this end, we are presently conducting an in-depth review of the company's longer term business plan, capacity/capability issues including capitalisation levels and fulfillment of the applicable regulatory conditions. We aim to conclude this exercise by September 2016.

3. **Will the Board increase its equity interest in Columbus Capital Pty Limited (“CCA”) from its present holding of 47.95% to 55% as CCA’s business has been profitable in both FY2014 and 2015?**

What is the impact to CCA’s profitability with the Reserve Bank of Australia (“RBA”) recently cutting the interest rate to 1.75% and what measures CCA would have taken to mitigate the impact of lower interest rate?

Answer:

The key deliverables for CCA is to continue to grow its loan book, diversify funding sources and seek new fee based income streams to enhance profitability. Premised on these, the Company has been critically evaluating CCA’s loan book growth potential and longer-term sustainable profit generation capability before taking the next steps to increase its present equity interest in CCA.

The cut in the RBA rate has improved CCA’s profitability for the following reasons:

- i) CCA as the lender, controls the interest rate of variable rate home loans (which comprised 97% of the total mortgage portfolio) and has chosen to take the opportunity to reprice the margin enjoyed by CCA by not passing on the full benefit of the RBA rate reduction for certain classes of borrower.
 - ii) CCA’s funding liability rates which are variable in nature are pegged to the RBA’s cash rate, thus any reduction in the RBA rate will lower CCA’s funding costs.
4. **The Group had suffered RM1.1 million losses due to operational lapses as reported in the Audit Committee Report. Please provide the name of the company that is involved, the nature of the lapses and the corrective measures taken.**

Answer:

The loss stemmed primarily from the decision of MAA Takaful’s management to reduce/waive the management fees relating to a product offering. These fees were waived on commercial considerations to secure the business. The basis or rationale for granting the waiver is not in dispute as the client had given strong indications of continued future support and the business was indeed secured and profitable to MAA Takaful as well as beneficial to participants. However, appropriate formal approvals were not obtained and documented and hence the business was subject of a detailed review by the Audit Committee. The review of existing operating business procedures of MAA Takaful by Internal Audit revealed that the said procedures were not explicit in regard to the appropriate financial limits and the authorities within the organization who are empowered to grant such exemptions or reductions. This inadvertent omission has since been rectified through the adoption, documentation and implementation of a Board authorised “Limits Of Approval” schedule and the attendant procedural steps.

As for the case resulting in the dismissal, it involved a financial misappropriation of approximately nine thousand ringgit where a part of it has been recovered.

Corporate Governance

MSWG is promoting standards of corporate governance best practices in PLCs. In this regard, we hope the Board could address the following:

- 1. Address and formalize the approach the gender diversity and actions taken to meet the target of 30% of women directors and also to disclose it in the Annual Report.**

Answer:

The Board had committed itself to gender diversity in May 2013 when it formally accepted the 30 % female representation target. We are mindful of the fact that, this is yet to be achieved. This is largely attributable to the fact that, from that point in time, the Group had commenced a realignment of its operations which demanded a certain element of continuity.

With the sale of MAA Takaful, we will complete our exit from the domestic financial services sector. Coupled with the on-going search for alternative investment opportunities, it affords the Group with an opportunity to infuse new skill sets at the Board that dovetails with the new businesses that the Group will undertake. We will use this occasion to consider competent female candidates for appointment to the Board.

We wish to reiterate the Group also has a Diversity and Non Discrimination Policy in place since May 2013.

- 2. To publish the Company's Memorandum & Articles ("M&A") on the Company's website for the benefits of all shareholders.**

Answer:

The M&A has been uploaded to the Company's website on 14 June 2016.

We trust the above explanations sufficiently address your expressed concerns. Please do not hesitate to contact the undersigned in the event you require further clarifications.

Yours faithfully
MAA GROUP BERHAD



DATUK MUHAMAD UMAR SWIFT
GROUP MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER