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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

AS AT 30 JUNE 2006

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

AS AT 30 JUNE 2006

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MALAYSIA NATIONAL INSURANCE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors are pleased to submit their report to the members together with the audited financial statements of the Company for the 15 months financial period ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the underwriting of life insurance and all classes of general insurance business. There have been no significant changes in the nature of the activities of the Company during the financial period.

ULTIMATE HOLDING COMPANY

During the financial period, Mayban Fortis Holdings Berhad ("MFHB") acquired the entire equity interest of the Company's then ultimate holding company, MNI Holdings Berhad. MFHB is a subsidiary of Malayan Banking Berhad ("MBB"), a licensed commercial bank listed on the Main Board of Bursa Malaysia Securities Berhad. Both MFHB and MBB are incorporated in Malaysia. The Directors now regard MBB as its ultimate holding company.

MNI Holdings Berhad, which was previously listed on the Main Board of Bursa Malaysia Securities Berhad, was de-listed with effect from 23 March 2006.

CHANGE OF FINANCIAL YEAR END

During the financial period, the Company changed its financial year end from 31 March to 30 June to be coterminous with the financial year end of the Company's new ultimate holding company.

FINANCIAL RESULTS

| | |
|-------------------------------------|---------------|
| | RM'000 |
| Net profit for the financial period | <u>69,698</u> |

DIVIDENDS

The dividends paid or declared by the Company since 31 March 2005 were as follows:

| | |
|---|---------------|
| | RM'000 |
| Interim dividend of 21 sen per share, less 28% income tax amounting to RM23,005,000 in respect of the financial year ended 31 March 2005, declared on 30 March 2005 and paid on 18 October 2005 | <u>23,005</u> |

The Directors do not recommend the payment of any dividend for the financial period ended 30 June 2006.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial period are disclosed in the statement of changes in equity.

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

PROVISION FOR OUTSTANDING CLAIMS

Before the income statements and balance sheets of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including Incurred But Not Reported ("IBNR") claims.

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amounts written off for bad debts or the amounts of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the income statements and balance sheets of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company that has arisen since the end of the financial period which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Company that has arisen since the end of the financial period.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period after the end of the financial period which, in the opinion of the Directors, will or may affect the ability of the Company to meet its obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company during the financial period were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial period in which this report is made.

SHARE CAPITAL

There was no issuance of shares during the financial period.

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is committed to ensuring that the highest standards of corporate governance are practised in the Company. This is a fundamental part in discharging their responsibilities to protect and enhance all stakeholders' values and the financial performance of the Company.

Board Responsibilities

In discharging their duties, the Board is equally responsible to ensure compliance with the Insurance Act ("the Act") and Regulations, 1996 and Bank Negara Malaysia's ("BNM") Guidelines, including JPI/GPI 1: Duties and Responsibilities of Directors and Chief Executive of Insurers and other directives. They also have to comply with the tenets of corporate governance by adopting its best practices as stipulated under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers. Apart from their statutory responsibilities, the Board approves the Company's major investments, disposals and funding decisions. They ensure the implementation of appropriate systems to manage risks and also review and approve the strategies and financial objectives to be implemented by the management. These functions are carried out by the Board directly and/or through their various committees.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Responsibilities (continued)

The Board is responsible for creating the framework and policies within which the Company should be operating and the management is responsible for implementing them. This demarcation reinforces the supervisory role of the Board.

Hence, the Company has an organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees and formal performance appraisals are done annually.

The directors, with different backgrounds and experiences, collectively bring with them a wide range of skills and specialised knowledge that are required for the management of the Company.

The Board met 15 times during the financial year and the attendance of the directors was as follows:

| | <u>Number of Board meetings attended</u> | |
|--|--|------|
| | | % |
| Datuk Haji Abdul Rahman bin Mohd Ramli | 15/15 | 100 |
| Kenji Kojima | 15/15 | 100 |
| <u>Directors appointed on 25 January 2006:</u> | | |
| Tan Sri Dato' Megat Zaharuddin Megat Mohd Nor | 2/2 | 100 |
| Datuk Amirsham A. Aziz | 2/2 | 100 |
| Aminuddin Md Desa | 2/2 | 100 |
| Filip Andre Lodewijck Coremans | 2/2 | 100 |
| Hugo Philip van Vledder | 1/2 | 50 |
| <u>Directors resigned on 25 January 2006:</u> | | |
| Dato' Mohamed Ghaus bin Badioze Zaman | 13/13 | 100 |
| Dato' Dr Shamsuddin Kassim | 12/13 | 92.3 |
| Datuk Ramli bin Ibrahim | 11/13 | 84.6 |
| Zainal Abidin bin Jamal | 12/13 | 92.3 |
| Dzulkifli bin Mohd Salleh | 13/13 | 100 |
| Mohd Najib Hj. Abdullah | 13/13 | 100 |

Management Accountability

Whilst the Board is responsible for creating the framework and policies within which the Company should be operating, the management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Corporate Independence

All material related party transactions have been disclosed in Note 33 to the financial statements.

Internal Controls and Audit

The Board exercises overall responsibility for the Company's internal controls and its effectiveness. The Board recognises that risks cannot be eliminated completely; as such, the systems and processes put in place are aimed at minimising and managing them. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as to safeguard the assets of the Company and stakeholders' interests.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures that corrective action where necessary, is taken in a timely manner. The internal audit reports are tabled at the first scheduled Audit Committee ("AC") meeting after the date of receipt of these reports. The internal audit function reports to the Board through the AC, and its findings and recommendations are communicated to senior management and all levels of staff concerned. The AC is established at the penultimate holding company's level, Mayban Fortis Holdings Berhad ("MFHB") effective 17 May 2006, with the consent from BNM.

The composition of the previous AC was as follows:

| | |
|--|-------------------------------|
| Datuk Ramli bin Ibrahim (Chairman) Independent Non-Executive Director | (resigned on 25 January 2006) |
| Datuk Hj Abdul Rahman bin Mohd Ramli Independent Non-Executive Director | |
| Dzulkifli bin Mohd Salleh Independent Non-Executive Director | (resigned on 25 January 2006) |

The previous AC met 5 times during the financial year.

The composition of the AC established at MFHB is as follows:

| | |
|--|----------------------------|
| Raja Tan Sri Muhammad Alias bin Raja Muhd Ali (Chairman) Independent Non-Executive Director | |
| Damis Jacobus Ziengs Non-Independent Non-Executive Director | |
| Sulaiman bin Salleh Independent Non-Executive Director | |
| Datuk Hj Abdul Rahman bin Mohd Ramli Non-Independent Non-Executive Director | (appointed on 17 May 2006) |
| Datuk Dr Syed Othman bin Syed Hussin Alhabshi Independent Non-Executive Director | (appointed on 17 May 2006) |

The AC met 5 times from 1 July 2005 to 30 June 2006.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Risk Management

The Board takes responsibility in establishing the Risk Management Committee ("RMC"). The primary objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

The Company has established its RMC at MFHB's level effective 17 May 2006, with the consent from BNM. In discharging its responsibilities, the RMC is complemented by the Investment Committee of the Board and assisted by the Asset Liability Committee ("ALCO") of the management.

The risk management framework for the Company comprises three main components i.e. policy-making, monitoring and control and risk acceptance while the risk management approach would premise on three lines of defence i.e. risk-taking, risk control and coordinating units and internal audit. Risks have been classified into three main categories, which are made up of insurance risk, financial risk (including market risk, credit risk and balance sheet risk) and operational risk.

There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company. This is achieved through designated management functions and internal controls, which includes the setting up of operational risk limits for all core activities.

The composition of the previous RMC was as follows:

Datuk Hj Abdul Rahman bin Mohd Ramli (Chairman)
Independent Non-Executive Director

Dato' Dr Shamsuddin bin Kassim
Non-Independent Non-Executive Director (resigned on 25 January 2006)

Dzulkifli bin Mohd Salleh
Independent Non-Executive Director (resigned on 25 January 2006)

The previous RMC met 5 times during the financial year.

The composition of the RMC established at MFHB is as follows:

Tan Sri Mohamed Basir bin Ahmad (Chairman)
Non-Independent Non-Executive Director

Raja Tan Sri Muhammad Alias bin Raja Muhd Ali
Independent Non-Executive Director

Petrus Bernadus Gerardus van Harten
Non-Independent Non-Executive Director

Datuk Hj Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director (appointed on 17 May 2006)

The RMC met 4 times from 1 July 2005 to 30 June 2006.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Nomination and Remuneration Committees

The Board also takes responsibility in establishing the Nomination and Remuneration Committees. The Company had on 17 May 2006 obtained BNM's approval to use the existing Nomination Committee and Remuneration and Establishment Committee of the ultimate holding company, Malayan Banking Berhad ("MBB") Group as part of its governance structure.

The primary objective of the Nomination Committee ("NC") is to establish a documented, formal and transparent procedure for the appointment of directors, chief executive officer and key senior officers. The committee is also responsible to assess the effectiveness of directors, the Board as a whole and the various committees of the Board, the chief executive officer and key senior officers.

The Remuneration Committee ("RC"), on the other hand, is responsible to provide a formal and transparent procedure for developing a remuneration policy for directors, chief executive officer and key senior officers and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

At MBB level, the Remuneration Committee is known as Remuneration and Establishment Committee ("REC").

The composition of the previous NC was as follows:

| | |
|---|-------------------------------|
| Datuk Hj Abdul Rahman bin Mohd Ramli (Chairman) Independent Non-Executive Director | |
| Datuk Ramli bin Ibrahim Independent Non-Executive Director | (resigned on 25 January 2006) |
| Dato' Dr. Shamsuddin bin Kassim Non-Independent Non-Executive Director | (resigned on 25 January 2006) |
| Zainal Abidin bin Jamal Non-Independent Non-Executive Director | (resigned on 25 January 2006) |
| Dzulkifli bin Mohd Salleh Independent Non-Executive Director | (resigned on 25 January 2006) |

The previous NC met 2 times during the financial year.

The composition of the NC established at MBB is as follows:

| | |
|--|-----------------------------|
| Raja Tan Sri Muhammad Alias bin Raja Muhd Ali (Chairman) Independent Non-Executive Director | |
| Mohammad bin Abdullah Independent Non-Executive Directors | |
| Haji Mohd Hashir bin Abdullah Independent Non-Executive Director | |
| Datuk Amirsham bin A. Aziz Non-Independent Executive Director | (resigned on 24 March 2006) |

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Nomination and Remuneration Committees (continued)

The composition of the NC established at MBB is as follows (continued):

Datuk Hj Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director

Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor
Independent Non-Executive Director

The NC met 6 times from 1 July 2005 to 30 June 2006.

The composition of the previous RC was as follows:

Dzulkifli bin Mohd Salleh (Chairman) (resigned on 25 January 2006)
Independent Non-Executive Director

Datuk Ramli bin Ibrahim (resigned on 25 January 2006)
Independent Non-Executive Director

Zainal Abidin bin Jamal (resigned on 25 January 2006)
Non-Independent Non-Executive Director

The previous RC met once during the financial year.

The composition of the REC established at MBB is as follows:

Mohammad bin Abdullah (Chairman)
Independent Non-Executive Director

Raja Tan Sri Muhammad Alias bin Raja Muhd Ali
Independent Non-Executive Director

Datuk Hj Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director

Teh Soon Poh
Independent Non-Executive Director

The REC met 12 times from 1 July 2005 to 30 June 2006.

Public Accountability

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Financial Reporting

The Board takes responsibility for presenting a balanced and comprehensive assessment of the Company's operations and prospects each time it releases its annual financial statements to shareholders. The AC of the Board assists by scrutinizing the information to be disclosed, to ensure accuracy, adequacy and completeness.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

| | |
|---|--------------------------------|
| Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor | (appointed on 25 January 2006) |
| Datuk Amirsham bin A. Aziz | (appointed on 25 January 2006) |
| Aminuddin bin Md Desa | (appointed on 25 January 2006) |
| Filip Andre Lodewijck Coremans | (appointed on 25 January 2006) |
| Hugo Philip van Vledder | (appointed on 25 January 2006) |
| Datuk Hj Abdul Rahman bin Mohd Ramli | |
| Kenji Kojima | |
| Dato' Mohamed Ghaus bin Badioze Zaman | (resigned on 25 January 2006) |
| Dato' Dr. Shamsuddin bin Kassim | (resigned on 25 January 2006) |
| Datuk Ramli bin Ibrahim | (resigned on 25 January 2006) |
| Zainal Abidin bin Jamal | (resigned on 25 January 2006) |
| Dzulkifli bin Mohd Salleh | (resigned on 25 January 2006) |
| Mohd Najib bin Hj Abdullah | (resigned on 25 January 2006) |

DIRECTORS' BENEFITS

During and at the end of the financial period, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as may arise from the share options to be granted pursuant to the ultimate holding company's Maybank Group Employee Share Option Scheme ("ESOS").

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than Directors' remuneration disclosed in Note 21 to the financial statements) or the fixed salary of a full-time employee of the Company by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial period in shares in the Company or its related corporations during the financial period were as follows:

Ultimate holding company:
Malayan Banking Berhad

| | <u>Number of ordinary shares of RM1 each</u> | | | |
|--|--|---------------|-------------|-------------------------|
| | <u>1 April 2005/ date of appointment</u> | <u>Bought</u> | <u>Sold</u> | <u>30 June 2006</u> |
| Direct Interest | | | | |
| Datuk Amirsham A. Aziz | 381,000 | 100,000 | - | 481,000 |
| Indirect Interest | | | | |
| Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor | 10,000 | - | - | 10,000 |
| Datuk Hj Abdul Rahman bin Mohd Ramli | 20,000 | 103,000 | (109,800) | 13,200 |

| | <u>Number of options over ordinary shares of RM1 each</u> | | | | |
|---|---|-------------------------|----------------|------------------|-------------------------|
| | <u>Option Price</u> RM | <u>Date of ESOS</u> | <u>Granted</u> | <u>Exercised</u> | <u>30 June 2006</u> |
| Datuk Hj Abdul Rahman bin Mohd Ramli | 9.23 | 01.09.2005 | 185,000 | (103,000) | 82,000 |
| | 9.92 | 01.09.2005 | 62,500 | - | 62,500 |
| Datuk Amirsham bin A. Aziz | 9.23 | 01.09.2004 | 650,000 | (220,000) | 430,000 |
| | 9.87 | 15.12.2004 | 120,000 | - | 120,000 |
| | 9.92 | 14.11.2005 | 120,000 | - | 120,000 |

Other than as disclosed, none of the directors in office at the end of the financial period had any interest in shares in the Company or its related corporations during the financial period.

SIGNIFICANT EVENT

The significant event during the financial period is as disclosed in Note 29 to the financial statements.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 14 August 2006.

Megat Zaharuddin bin Megat Mohd Nor

Aminuddin bin Md Desa

Kuala Lumpur

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Megat Zaharuddin bin Megat Mohd Nor and Aminuddin bin Md Desa, being two of the Directors of Malaysia National Insurance Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 14 to 74 are drawn up in accordance with MASB Approved Accounting Standards in Malaysia, and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 30 June 2006 and of the results and the cash flows of the Company for the financial period then ended.

Signed on behalf of the Board in accordance with their resolution dated 14 August 2006.

Megat Zaharuddin bin Megat Mohd Nor

Aminuddin bin Md Desa

Kuala Lumpur

**STATUTORY DECLARATION PURSUANT TO
SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, Filip Andre Lodewijck Coremans, being the Director primarily responsible for the financial management of Malaysia National Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 14 to 74 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Filip Andre Lodewijck Coremans

Subscribed and solemnly declared by the abovenamed Filip Andre Lodewijck Coremans at Kuala Lumpur in Malaysia on 14 August 2006, before me.

COMMISSIONER FOR OATHS

REPORT OF THE AUDITORS TO THE MEMBER OF
MALAYSIA NATIONAL INSURANCE BERHAD
(Company No. 9557 T)

We have audited the financial statements set out on pages 14 to 74. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Company as at 30 June 2006 and of the results and the cash flows of the Company for the fifteen months period then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young
AF: 0039
Chartered Accountants

Gloria Goh Ewe Gim
No. 1685/04/07(J)
Partner

14 August 2006

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 30 JUNE 2006

| | <u>Note</u> | <u>30.6.06</u> RM'000 | <u>Restated</u> <u>31.3.05</u> RM'000 |
|--|-------------|--------------------------|---|
| ASSETS | | | |
| GENERAL INSURANCE AND SHAREHOLDERS' FUND ASSETS | | | |
| Property and equipment | 3(a) | 37,404 | 61,896 |
| Goodwill | 4 | - | - |
| Investments | 5(a) | 1,102,296 | 1,160,864 |
| Loans | 6(a) | 31,308 | 15,456 |
| Subsidiary companies | 7 | 171,125 | 95,125 |
| Due from related companies | 8 | 378 | 752 |
| Trade and other receivables | 9(a) | 231,044 | 187,905 |
| Tax recoverable | | 116,933 | 116,933 |
| Deferred tax assets | 13 | 15,193 | 15,534 |
| Cash and bank balances | 10 | 61,729 | 28,224 |
| | | <u>1,767,410</u> | <u>1,682,689</u> |
| LIFE INSURANCE FUND ASSETS | page 18 | <u>4,066,735</u> | <u>3,841,003</u> |
| TOTAL ASSETS | | <u><u>5,834,145</u></u> | <u><u>5,523,692</u></u> |
| LIABILITIES | | | |
| GENERAL INSURANCE AND SHAREHOLDERS' FUND LIABILITIES | | | |
| Provision for outstanding claims | 11(a) | 231,166 | 254,064 |
| Due to a related companies | 8 | 17,098 | - |
| Trade and other payables | 12(a) | 296,986 | 221,332 |
| Tax payable | | 69,424 | 134,340 |
| | | <u>614,674</u> | <u>609,736</u> |
| LIFE INSURANCE FUND LIABILITIES | page 18 | <u>196,038</u> | <u>207,612</u> |
| | | 810,712 | 817,348 |
| Unearned premium reserves | 14 | 167,199 | 157,114 |
| Life Insurance Policyholders' Fund | 15 | 3,868,872 | 3,631,566 |
| Life Insurance Asset Revaluation Reserve | 16 | 1,825 | 1,825 |
| TOTAL LIABILITIES | | <u><u>4,848,608</u></u> | <u><u>4,607,853</u></u> |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 17 | 152,151 | 152,151 |
| Reserves | | 833,386 | 763,688 |
| | | <u>985,537</u> | <u>915,839</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u><u>5,834,145</u></u> | <u><u>5,523,692</u></u> |

The accompanying notes form an integral part of these financial statements.

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2006

| | <u>Note</u> | 1.4.05 to <u>30.6.06</u> RM'000 | Restated 1.4.04 to <u>31.3.05</u> RM'000 |
|---|-----------------|--|--|
| Operating revenue | 18 | 1,537,137 | 1,672,998 |
| Shareholders' Fund: | | | |
| Investment income | 19(a) | 29,263 | 21,531 |
| Other operating (expense)/income - net | 20(a) | (878) | 5,681 |
| Management expenses | 21(a) | (3,310) | (4,204) |
| | | <u>25,075</u> | <u>23,008</u> |
| Surplus transferred from revenue accounts: | | | |
| - General insurance business | pages 16 and 17 | 63,045 | 33,455 |
| - Life insurance business | page 19 | 40,000 | 30,000 |
| Profit from operations | | <u>128,120</u> | <u>86,463</u> |
| Taxation | 22(a) | (58,422) | (20,460) |
| Net profit for the financial period/year | | <u>69,698</u> | <u>66,003</u> |
| Gross dividend per share (sen) | 23 | <u>-</u> | <u>21.0</u> |
| Earnings per share (sen) | 24 | <u>45.8</u> | <u>43.4</u> |

The accompanying notes form an integral part of these financial statements.

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

**GENERAL INSURANCE REVENUE ACCOUNT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2006**

| | <u>Note</u> | <u>Fire</u> RM'000 | <u>Motor</u> RM'000 | <u>Marine, aviation and transit</u> RM'000 | <u>Miscellaneous</u> RM'000 | <u>Total</u> RM'000 |
|--|-------------|-----------------------|------------------------|---|--------------------------------|------------------------|
| Gross premium | 18 | 78,562 | 158,882 | 171,669 | 308,421 | 717,534 |
| Reinsurance | | (54,980) | (8,830) | (152,816) | (254,528) | (471,154) |
| Net premium | | <u>23,582</u> | <u>150,052</u> | <u>18,853</u> | <u>53,893</u> | <u>246,380</u> |
| Decrease/(increase) in unearned premium reserves | 14 | <u>10,587</u> | <u>(2,188)</u> | <u>(1,497)</u> | <u>(16,987)</u> | <u>(10,085)</u> |
| Earned premium | | <u>34,169</u> | <u>147,864</u> | <u>17,356</u> | <u>36,906</u> | <u>236,295</u> |
| Net claims incurred | 25(a) | (12,504) | (96,133) | (3,037) | (33,174) | (144,848) |
| Net commission | | <u>3,977</u> | <u>(12,780)</u> | <u>287</u> | <u>1,700</u> | <u>(6,816)</u> |
| Underwriting surplus before management expenses | | <u><u>25,642</u></u> | <u><u>38,951</u></u> | <u><u>14,606</u></u> | <u><u>5,432</u></u> | <u><u>84,631</u></u> |
| Management expenses | 21(b) | | | | | <u>(77,948)</u> |
| Underwriting surplus | | | | | | <u>6,683</u> |
| Investment income | 19(b) | | | | | <u>46,271</u> |
| Other operating income - net | 20(b) | | | | | <u>10,091</u> |
| Surplus transferred to Income Statement | | | | | | <u><u>63,045</u></u> |

The accompanying notes form an integral part of these financial statements.

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

**GENERAL INSURANCE REVENUE ACCOUNT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2005**

| | <u>Note</u> | <u>Fire</u> RM'000 | <u>Motor</u> RM'000 | <u>Marine, aviation and transit</u> RM'000 | <u>Miscellaneous</u> RM'000 | <u>Total</u> RM'000 |
|--|-------------|-----------------------|------------------------|---|--------------------------------|------------------------|
| Gross premium | 18 | 72,884 | 113,372 | 100,434 | 147,762 | 434,452 |
| Reinsurance | | (48,771) | (5,525) | (85,737) | (101,687) | (241,720) |
| Net premium | | <u>24,113</u> | <u>107,847</u> | <u>14,697</u> | <u>46,075</u> | <u>192,732</u> |
| Decrease/(increase) in unearned premium reserves | 14 | <u>8,186</u> | <u>(2,320)</u> | <u>707</u> | <u>19,081</u> | <u>25,654</u> |
| Earned premium | | <u>32,299</u> | <u>105,527</u> | <u>15,404</u> | <u>65,156</u> | <u>218,386</u> |
| Net claims incurred | 25(a) | (9,327) | (100,113) | (7,752) | (27,172) | (144,364) |
| Net commission | | <u>879</u> | <u>(9,265)</u> | <u>(979)</u> | <u>(3,653)</u> | <u>(13,018)</u> |
| Underwriting surplus/ (deficit) before management expenses | | <u><u>23,851</u></u> | <u><u>(3,851)</u></u> | <u><u>6,673</u></u> | <u><u>34,331</u></u> | <u><u>61,004</u></u> |
| Management expenses | 21(b) | | | | | <u>(73,154)</u> |
| Underwriting deficit | | | | | | <u>(12,150)</u> |
| Investment income | 19(b) | | | | | <u>32,071</u> |
| Other operating income - net | 20(b) | | | | | <u>13,534</u> |
| Surplus transferred to Income Statement | | | | | | <u><u>33,455</u></u> |

The accompanying notes form an integral part of these financial statements.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

LIFE INSURANCE FUND BALANCE SHEET
AS AT 30 JUNE 2006

| | <u>Note</u> | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|--|-------------|--------------------------|--------------------------|
| ASSETS | | | |
| Property and equipment | 3(b) | 6,322 | 8,523 |
| Investments | 5(b)(i) | 3,684,127 | 3,496,944 |
| Loans | 6(b) | 190,217 | 178,900 |
| Trade and other receivables | 9(b) | 67,116 | 50,877 |
| Cash and bank balances | 10 | 48,018 | 38,560 |
| Tax recoverable | | 18,290 | 18,290 |
| Deferred tax assets | 13 | 2,987 | 191 |
| Investment-linked fund assets | 26 | 49,658 | 48,718 |
| LIFE INSURANCE FUND ASSETS | | <u>4,066,735</u> | <u>3,841,003</u> |
| LIABILITIES | | | |
| Provision for outstanding claims | 11(b) | 8,287 | 8,918 |
| Trade and other payables | 12(b) | 129,671 | 149,658 |
| Tax payable | | 56,683 | 47,496 |
| Investment-linked fund liabilities | 26 | 1,397 | 1,540 |
| LIFE INSURANCE FUND LIABILITIES | | <u>196,038</u> | <u>207,612</u> |
| LIFE INSURANCE POLICYHOLDERS' FUND | | | |
| LIFE INSURANCE ASSET REVALUATION RESERVE | 15 | 3,868,872 | 3,631,566 |
| | 16 | 1,825 | 1,825 |
| | | <u>3,870,697</u> | <u>3,633,391</u> |
| TOTAL LIFE INSURANCE FUND LIABILITIES AND POLICYHOLDERS' FUND | | <u>4,066,735</u> | <u>3,841,003</u> |

The accompanying notes form an integral part of these financial statements.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

**LIFE INSURANCE FUND REVENUE ACCOUNT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2006**

| | <u>Note</u> | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|---|-------------|--|--|
| Gross premium | 18 | 498,017 | 1,026,204 |
| Reinsurance | | (8,518) | (4,517) |
| Net premium | | <u>489,499</u> | <u>1,021,687</u> |
| Benefits paid and payable: | | | |
| Death | | (100,167) | (82,758) |
| Maturity | | (67,526) | (57,158) |
| Surrender | | (131,867) | (73,383) |
| Cash bonus | | (37,377) | (25,951) |
| Annuities | | (771) | (552) |
| Others | | (4,305) | (2,427) |
| Reinsurance recoveries | | 9,859 | 11,194 |
| | | <u>(332,154)</u> | <u>(231,035)</u> |
| | | 157,345 | 790,652 |
| Commission and agency expenses | | (57,240) | (61,200) |
| Management expenses | 21(c) | (46,984) | (34,295) |
| | | <u>53,121</u> | <u>695,157</u> |
| Investment income | 19(c) | 243,897 | 157,171 |
| Other operating (expense)/income - net | 20(c) | (2,298) | 26,764 |
| Surplus before taxation | | <u>294,720</u> | <u>879,092</u> |
| Taxation | 22(b)(i) | (18,600) | (15,597) |
| Surplus after taxation | | 276,120 | 863,495 |
| Surplus/(deficit) after taxation from Investment-linked Fund | 26 | <u>1,186</u> | <u>(2,370)</u> |
| | | 277,306 | 861,125 |
| Life insurance policyholders' fund at beginning of financial period/year | 15 | 3,631,566 | 2,800,441 |
| Transfer to Income Statement | 15 | (40,000) | (30,000) |
| Life insurance policyholders' fund at end of financial period/year | 15 | <u><u>3,868,872</u></u> | <u><u>3,631,566</u></u> |

The accompanying notes form an integral part of these financial statements.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2006

| | <u>Note</u> | <u>Share capital</u> RM'000 | <u>Non- distributable Share premium</u> RM'000 | <u>Distri- butable Retained earnings</u> RM'000 | <u>Total</u> RM'000 |
|-------------------------------------|-------------|------------------------------------|---|--|------------------------|
| At 1 April 2005 | | | | | |
| As previously reported | | 152,151 | 17,728 | 768,072 | 937,951 |
| Change in accounting policy | 28 | - | - | (22,112) | (22,112) |
| As restated | | <u>152,151</u> | <u>17,728</u> | <u>745,960</u> | <u>915,839</u> |
| Net profit for the financial period | | - | - | 69,698 | 69,698 |
| At 30 June 2006 | | <u><u>152,151</u></u> | <u><u>17,728</u></u> | <u><u>815,658</u></u> | <u><u>985,537</u></u> |
| At 1 April 2004 | | | | | |
| As previously reported | | 152,151 | 17,728 | 735,279 | 905,158 |
| Change in accounting policy | 28 | - | - | (32,317) | (32,317) |
| As restated | | <u>152,151</u> | <u>17,728</u> | <u>702,962</u> | <u>872,841</u> |
| Net profit for the financial year | | | | | |
| - restated | 28 | - | - | 66,003 | 66,003 |
| Dividends | 23 | - | - | (23,005) | (23,005) |
| At 31 March 2005 | | <u><u>152,151</u></u> | <u><u>17,728</u></u> | <u><u>745,960</u></u> | <u><u>915,839</u></u> |

The accompanying notes form an integral part of these financial statements.

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2006

| | <u>Note</u> | 1.4.05 to <u>30.6.06</u> RM'000 | Restated 1.4.04 to <u>31.3.05</u> RM'000 |
|--|-------------|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 128,120 | 86,463 |
| Adjustments for non-cash items | 30 | <u>(84,608)</u> | <u>561,958</u> |
| Profit from operations before changes in working capital | | 43,512 | 648,421 |
| Changes in working capital | 31 | 79,669 | (591,863) |
| Proceeds from disposal of investments | | 507,812 | 754,892 |
| Purchase of investments | | (712,441) | (990,451) |
| Investment income received | | <u>316,846</u> | <u>201,870</u> |
| Cash generated from operations | | 235,398 | 22,869 |
| Taxation (paid)/refund | | <u>(123,012)</u> | <u>15,075</u> |
| Net cash generated from operating activities | | <u>112,386</u> | <u>37,944</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of shares in subsidiary | | (76,000) | - |
| Proceeds from sale of property, plant and equipment | | 37,616 | 273 |
| Purchase of property, plant and equipment | | <u>(7,675)</u> | <u>(6,946)</u> |
| Net cash used in investing activities | | <u>(46,059)</u> | <u>(6,673)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Dividend paid | | <u>(23,005)</u> | <u>(62,443)</u> |
| Net cash used in financing activities | | <u>(23,005)</u> | <u>(62,443)</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 43,322 | (31,172) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD/YEAR | | <u>66,857</u> | <u>98,029</u> |
| CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD/YEAR | 10 | <u><u>110,179</u></u> | <u><u>66,857</u></u> |

The accompanying notes form an integral part of these financial statements.

Company No.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is principally engaged in the underwriting of life insurance and all classes of general insurance business. There have been no significant changes in the nature of the activities of the Company during the financial period.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and the principal place of business of the Company are located at Level 26, Tower 1, MNI Twins, 11, Jalan Pinang, 50450 Kuala Lumpur.

During the financial period, Mayban Fortis Holding Berhad (“MFHB”) acquired the entire equity interest of the Company’s then ultimate holding company, MNI Holdings Berhad. MFHB is a subsidiary of Malayan Banking Berhad (“MBB”), a licensed commercial bank listed on the Main Board of Bursa Malaysia Securities Berhad. Both MFHB and MBB are incorporated in Malaysia. The Directors now regard MBB as its ultimate holding company.

MNI Holdings Berhad, which was previously listed on the Main Board of Bursa Malaysia Securities Berhad, was de-listed with effect from 23 March 2006.

During the financial period, the Company changed its financial year end from 31 March to 30 June to be coterminous with the financial year end of the Company’s new ultimate holding company, Malayan Banking Berhad. Accordingly, comparative amounts for the income statement, statement of changes in equity, general insurance revenue account, life insurance fund revenue account, cash flow and related notes are not comparable.

The number of employees in the Company at the end of the financial period was 744 (2005: 771).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 14 August 2006.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention modified by the valuation of investments of the investment-linked funds at market value, and comply with the applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and relevant Guidelines and Circulars issued by Bank Negara Malaysia (“BNM”) in all material aspects.

During the financial period, the Company has accounted for a change in accounting policy retrospectively as a prior year adjustment arising from the adoption of the Company’s ultimate holding company’s accounting policy on goodwill. Goodwill arising on acquisition of business is written off/credited in full to retained profits immediately, instead of the previous policy whereby goodwill was amortised over a period of seven years.

The change in accounting policy has the effect of increasing the Company’s net profit for the prior financial year by RM10,205,000.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

The Company has elected not to prepare consolidated financial statements in accordance with the exemption under the Financial Reporting Standard 127 – Consolidated and Separate Financial Statements and as permitted under the sub-paragraph 5(4)(a) of the Ninth Schedule of the Companies Act, 1965, as the Company itself is a wholly owned subsidiary of MNI Holdings Berhad. The financial statements of the Company are consolidated by its penultimate holding company, Mayban Fortis Holdings Berhad, a company incorporated and domiciled in Malaysia. The registered office and principal place of business of Mayban Fortis Holdings Berhad are located at Level 15, Mayban Life Tower, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur. The audited financial statements of the subsidiaries are annexed herewith in accordance with the requirements of the Companies Act, 1965.

(b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

Freehold land and work-in-progress are not depreciated. Leasehold land is depreciated over the period of the respective leases. Buildings on leasehold land are depreciated over the shorter of 50 years or the remaining period of the respective leases.

Depreciation on other property and equipment is provided for on a straight-line basis to write off the cost of its assets to its residual value over its estimated useful life at the following annual rates:

| | |
|--|-----------|
| Buildings | 2% |
| Computer equipment | 25% |
| Motor vehicles | 20% |
| Office equipment, furniture and fittings | 15% - 20% |

Upon the disposal of an item of property and equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement/revenue accounts.

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MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries

Investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(f).

On the disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is recognised in the income statement.

(d) Investment properties

Investment properties consist of investment in land and buildings that are not substantially occupied for use by, or in the operations of the Company. In line with Financial Reporting Standard ("FRS") 203 - Life Insurance Business, all land and buildings owned by the life insurance business are classified as investment properties, as the predominant purpose in holding all types of land and buildings is the generation of investment returns.

Investment properties are treated as long-term investments and are stated at cost and include related and incidental expenditure incurred less impairment losses. Investment properties are not depreciated. The carrying amount of investment properties is reduced to recognise impairment losses, if any.

At each balance sheet date, the Company assesses whether there is an indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(f) on impairment of assets.

Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement/revenue accounts.

(e) Investments

Insurance business

Malaysian Government Securities and other approved investments as specified by BNM are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on the effective yield basis, from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the income statement and/or revenue accounts.

Unquoted corporate bonds which carry a minimum rating of 'BBB' or 'P3' are valued at cost adjusted for amortisation of premium and accretion of discounts, where applicable, calculated on the effective yield basis, from the date of purchase to their respective maturity date. Any corporate bond with a lower rating is stated at the lower of cost and net realisable value.

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments (Continued)

Insurance business (Continued)

Other quoted debt securities are stated at the lower of cost and market value.

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments except that if diminution in value of a particular investment is not regarded as temporary, specific allowance is made against the value of that investment. Market value is determined by reference to the stock exchange closing price at the balance sheet date.

Other unquoted investments are stated at cost and an allowance for diminution in value is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the financial period in which the decline is identified.

Investment-linked life insurance business

Quoted investments are stated at the closing market prices and unquoted investments are stated at prices quoted by merchant banks as at the balance sheet date. Any increase or decrease in the value of these investments is recognised in the Statement of Income and Expenditure of the investment-linked fund.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is credited or charged to the revenue accounts.

(f) Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of the net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is charged to the income statement/revenue accounts immediately. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

(g) Goodwill

Goodwill which relates to the excess of the purchase price over the fair value of assets and liabilities acquired is written off in full to retained profits immediately.

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, unearned premium reserves, commissions, and claims incurred.

Premium income

Premium income is recognised in a financial period in respect of risks assumed during that particular financial period. Premiums from direct business are recognised during the financial period upon the issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the balance sheet date are accrued at that date.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.

Unearned premium reserves (“UPR”)

Short term portion

The short term UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

In determining the UPR at the balance sheet date, the method that most accurately reflects the actual unearned premium is used as follows:

- 25% method for marine cargo, aviation cargo and transit business;
- 1/24th method for all other classes of Malaysian policies reduced by the corresponding percentage of accounted gross direct business commissions and agency-related expenses not exceeding limits specified by BNM as follows:

| | |
|---|-----|
| Motor and bonds | 10% |
| Fire, engineering, aviation & marine hull | 15% |
| Medical and Health | |
| - Stand-alone individuals | 15% |
| - Group of 3 or more | 10% |
| Workmen compensation and employers' liability | |
| - Foreign workers | 10% |
| - Others | 25% |
| Others | 25% |

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) General insurance underwriting results (continued)

Unearned premium reserves (“UPR”) (continued)

Short term portion (continued)

- 1/8th method for all other classes of overseas inward business with a deduction of 20% for acquisition costs; and
- Non-annual policies are time apportioned over the period of the risks.

Long term portion

The long term UPR represent the portion of the net premiums of long term Federal Treasury fire insurance and other policies underwritten, that relate to the unexpired periods of the policies at the end of the financial period. The premium income is recognised on a time apportionment basis over the duration of the policies.

Provision for claims

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the balance sheet date.

Provision is also made for the cost of claims together with related expenses incurred but not reported (“IBNR”) at the balance sheet date, based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on an actual claims development pattern.

Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premium, is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

(i) Life insurance underwriting results

The surplus transferable from the Life Insurance Fund to the income statements is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders.

Premium income

Premium income includes premium recognised in the Life Insurance Fund:

Premium income of the Life Insurance Fund is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

At the end of the financial period, all due premiums are accounted for to the extent that they can be reliably measured.

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Life insurance underwriting results (continued)

Premium income

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relates.

Commission and agency expenses

Commission and agency expenses, which are costs directly incurred in securing premiums on insurance policies, net of income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the revenue accounts in the financial period in which they are incurred.

Provision for claims

Claims and settlement costs that are incurred during the financial period are recognised when a claimable event occurs and/or the insurer is notified.

Recoveries on reinsurance claims are accounted for in the same financial period as the original claims are recognised.

Claims and provisions for claims arising on life insurance policies, including settlement costs, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

- (i) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
 - (ii) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.
- (j) Other revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably.

Interest income on loans is recognised on an accrual basis except where a loan is considered non-performing, i.e. where repayments are in arrears for more than three months, in which case recognition of such interest are suspended with retrospective adjustment made to the date of first default. Subsequent to suspension, interest are recognised on the receipt basis until all arrears have been paid.

MALAYSIA NATIONAL INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Other revenue recognition (Continued)

Other interest income (including the amount of amortisation of premiums and accretion of discounts) is recognised on a time proportion basis that takes into account the effective yield of the asset.

Rental income is recognised on an accrual basis with the terms of relevant agreements except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, income is recognised on the receipt basis until all arrears have been paid.

Dividend income is recognised on a declared basis when the shareholders' right to receive payment is established.

Management fees are recognised on an accrual basis.

Gain or loss arising on disposal of investments which is the difference between the net disposal proceeds and its carrying value, net of accretion of discounts or amortisation of premiums is credited or charged to the income statement and/or revenue accounts.

(k) Foreign currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the dates of the transactions. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rates as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rates that existed when the values were determined. All exchange rate differences are taken to the income statement/revenue accounts.

The principal exchange rates for every respective unit of the foreign currency ruling at the balance sheet date used were as follows:

| | <u>30.6.06</u> | <u>31.3.05</u> |
|---------------|----------------|----------------|
| Brunei Dollar | 2.28 | 2.29 |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income taxes

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit and surplus for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(m) Employee benefits

Short-term employee benefits

Wages, salaries, bonuses and social security contributions ("SOCSO") are recognised as an expense in the period in which the associated services are rendered by employees of the Company. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated balances, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plan

As required by law, the Company makes contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement/revenue accounts as incurred.

MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash and bank balances but do not include fixed and call deposits.

The cash flow statements have been prepared using the indirect method.

(o) Financial instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends, gains and losses relating to financial instruments classified as liabilities, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Disclosure information for financial assets and liabilities that relate to rights and obligations arising under insurance contracts is excluded from the scope of Financial Reporting Standard 132 - Financial Instruments: Disclosure and Presentation.

Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date. Specific provisions are made for any premiums/contributions including agents, brokers and reinsurers balances which remain outstanding for more than six months (except for motor premium balances which remain outstanding for more than 30 days) from the date on which they become receivable.

Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services rendered.

Equity

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised and accounted for in the statement of changes in equity in the period in which they are declared.

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

3 PROPERTY AND EQUIPMENT

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | <u>#Land and buildings</u> RM'000 | <u>Computer equipment</u> RM'000 | <u>Motor vehicles</u> RM'000 | <u>Office equipment, furniture and fittings</u> RM'000 | <u>Total</u> RM'000 |
|--|--|---|-------------------------------------|---|------------------------|
| <u>Cost</u> | | | | | |
| At 1 April 2005 | 59,867 | 76,028 | 1,188 | 27,304 | 164,387 |
| Additions | - | 666 | 451 | 52 | 1,169 |
| Disposals | (14,866) | (9) | (724) | (11) | (15,610) |
| At 30 June 2006 | <u>45,001</u> | <u>76,685</u> | <u>915</u> | <u>27,345</u> | <u>149,946</u> |
| <u>Accumulated depreciation</u> | | | | | |
| At 1 April 2005 | 13,121 | 63,211 | 575 | 24,912 | 101,819 |
| Charge for the financial period | 826 | 10,672 | 329 | 1,157 | 12,984 |
| Disposals | (2,553) | (10) | (360) | (10) | (2,933) |
| At 30 June 2006 | <u>11,394</u> | <u>73,873</u> | <u>544</u> | <u>26,059</u> | <u>111,870</u> |
| <u>Accumulated impairment losses</u> | | | | | |
| At 1 April 2005/30 June 2006 | <u>672</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>672</u> |
| <u>Net book value</u> | | | | | |
| At 30 June 2006 | <u>32,935</u> | <u>2,812</u> | <u>371</u> | <u>1,286</u> | <u>37,404</u> |
| At 31 March 2005 | <u>46,074</u> | <u>12,817</u> | <u>613</u> | <u>2,392</u> | <u>61,896</u> |
| <u>Details at 1 April 2004</u> | | | | | |
| Cost | 59,285 | 74,831 | 1,072 | 27,163 | 162,351 |
| Accumulated depreciation | 12,337 | 49,735 | 886 | 23,668 | 86,626 |
| Impairment losses | 672 | - | - | - | 672 |
| Depreciation charge for the financial year ended 31 March 2005 | <u>784</u> | <u>13,487</u> | <u>167</u> | <u>1,258</u> | <u>15,696</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

3 PROPERTY AND EQUIPMENT (CONTINUED)

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS (CONTINUED)

Breakdown for land and buildings:

| | Freehold land <u>RM'000</u> | Buildings on freehold land <u>RM'000</u> | Leasehold land 50 years or more <u>RM'000</u> | Buildings on leasehold land 50 years or more <u>RM'000</u> | <u>Total</u> <u>RM'000</u> |
|--|-----------------------------------|---|---|---|-------------------------------|
| <u>Cost</u> | | | | | |
| At 1 April 2005 | 3,697 | 8,932 | 40,192 | 7,046 | 59,867 |
| Disposals | - | - | (14,686) | (180) | (14,866) |
| At 30 June 2006 | <u>3,697</u> | <u>8,932</u> | <u>25,506</u> | <u>6,866</u> | <u>45,001</u> |
| <u>Accumulated depreciation</u> | | | | | |
| At 1 April 2005 | 1,024 | 1,981 | 6,870 | 3,246 | 13,121 |
| Charge for the financial period | - | 223 | 430 | 173 | 826 |
| Disposals | - | - | (2,503) | (50) | (2,553) |
| At 30 June 2006 | <u>1,024</u> | <u>2,204</u> | <u>4,797</u> | <u>3,369</u> | <u>11,394</u> |
| <u>Accumulated impairment losses</u> | | | | | |
| At 1 April 2005/30 June 2006 | - | - | - | 672 | 672 |
| <u>Net book value</u> | | | | | |
| At 30 June 2006 | <u>2,673</u> | <u>6,728</u> | <u>20,709</u> | <u>2,825</u> | <u>32,935</u> |
| At 31 March 2005 | <u>2,673</u> | <u>6,951</u> | <u>33,322</u> | <u>3,128</u> | <u>46,074</u> |
| <u>Details at 1 April 2004</u> | | | | | |
| Cost | 3,697 | 8,932 | 39,610 | 7,046 | 59,285 |
| Accumulated depreciation | 1,024 | 1,803 | 6,404 | 3,106 | 12,337 |
| Impairment losses | - | - | - | 672 | 672 |
| Depreciation charge for the financial year ended 31 March 2005 | <u>-</u> | <u>179</u> | <u>465</u> | <u>140</u> | <u>784</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

3 PROPERTY AND EQUIPMENT (CONTINUED)

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS (CONTINUED)

The titles to certain leasehold and freehold land and buildings of the General Insurance and Shareholders' Funds of the Company costing RM14,666,000 (2005: RM34,806,000) are in the process of being transferred to the Company. Risks and rewards and effective title to the land and buildings have been passed to the Company upon unconditional completion of the sale and purchase agreements. The Company has submitted all the relevant documents to the land authorities and is awaiting the process and formalities for the transfer of title to be completed by the authorities.

(b) LIFE INSURANCE FUND

| | <u>Motor vehicles</u> RM'000 | <u>Computer equipment</u> RM'000 | <u>Office equipment, furniture and fittings</u> RM'000 | <u>Work-in- progress</u> RM'000 | <u>Total</u> RM'000 |
|--|-------------------------------------|---|---|--|------------------------|
| <u>Cost</u> | | | | | |
| At 1 April 2005 | - | 26,231 | 8,007 | 387 | 34,625 |
| Additions | - | 1,804 | 228 | 4,474 | 6,506 |
| Disposals | - | (18) | (6) | (280) | (304) |
| Reclassification | - | - | (820) | 820 | - |
| Transfer to investment property | - | - | - | (5,401) | (5,401) |
| | <u>-</u> | <u>28,017</u> | <u>7,409</u> | <u>-</u> | <u>35,426</u> |
| <u>Accumulated depreciation</u> | | | | | |
| At 1 April 2005 | - | 20,126 | 5,976 | - | 26,102 |
| Charge for the financial period | - | 2,511 | 515 | - | 3,026 |
| Disposals | - | (18) | (6) | - | (24) |
| | <u>-</u> | <u>22,619</u> | <u>6,485</u> | <u>-</u> | <u>29,104</u> |
| <u>Net book value</u> | | | | | |
| At 30 June 2006 | <u>-</u> | <u>5,398</u> | <u>924</u> | <u>-</u> | <u>6,322</u> |
| At 31 March 2005 | <u>-</u> | <u>6,105</u> | <u>2,031</u> | <u>387</u> | <u>8,523</u> |
| <u>Details at 1 April 2004</u> | | | | | |
| Cost | 270 | 19,827 | 6,950 | 3,441 | 30,488 |
| Accumulated depreciation | 270 | 18,576 | 5,342 | - | 24,188 |
| | <u>270</u> | <u>19,827</u> | <u>6,950</u> | <u>3,441</u> | <u>30,488</u> |
| Depreciation charge for the financial year ended 31 March 2005 | <u>-</u> | <u>1,550</u> | <u>634</u> | <u>-</u> | <u>2,184</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

3 PROPERTY AND EQUIPMENT (CONTINUED)

Included in property and equipment of the Company are fully depreciated assets which are still in use, at cost of:

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|---|--------------------------|--------------------------|
| General Insurance and Shareholders' Funds | 72,246 | 42,795 |
| Life Insurance Fund | <u>24,383</u> | <u>19,627</u> |

4 GOODWILL

Shareholders' Fund

| | 30.6.06 RM'000 | 31.3.05 RM'000 |
|---------------------------------|-------------------|-------------------|
| At cost | - | 71,438 |
| Accumulated amortisation | - | <u>(49,326)</u> |
| | - | 22,112 |
| Prior year adjustment (Note 28) | - | <u>(22,112)</u> |
| Net Book Value - restated | <u>-</u> | <u>-</u> |

Previously, goodwill arising on acquisition was stated at cost and amortised over a period of 7 years. The effect of change in policy is disclosed in Note 28 to the financial statements. During the financial period, the Company has accounted for a change in accounting policy retrospectively as a prior year adjustment arising from the adoption of the ultimate holding company's accounting policy on goodwill. Goodwill arising on the acquisition of business is written off/credited in full to retained profits immediately.

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

5 INVESTMENTS

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | 30.6.2006 | | 31.3.05 | |
|---|-----------------------------|--|-----------------------------|---------------------------|
| | Carrying value RM'000 | Market/ indicative value RM'000 | Carrying value RM'000 | Market value RM'000 |
| Malaysian Government Securities - at cost | 43,828 | | 80,077 | |
| Amortisation of premiums - net | (2,144) | | (6,927) | |
| | <u>41,684</u> | <u>41,077</u> | <u>73,150</u> | <u>74,107</u> |
| Quoted in Malaysia: | | | | |
| Equity securities of corporations - at cost | 197,684 | | 309,754 | |
| Allowance for diminution in value | (6,109) | | (15,006) | |
| | <u>191,575</u> | <u>204,609</u> | <u>294,748</u> | <u>299,098</u> |
| Unit trusts - at cost | 1,581 | | 1,581 | |
| Allowance for diminution in value | (720) | | (765) | |
| | <u>861</u> | <u>861</u> | <u>816</u> | <u>816</u> |
| Unquoted: | | | | |
| Equity securities of corporations - at cost | 47,500 | | 68,700 | |
| Allowance for diminution in value | (2,696) | | (14,400) | |
| | <u>44,804</u> | | <u>54,300</u> | |
| Corporate debt securities - at cost | 446,545 | | 475,406 | |
| Accretion of discounts - net | 23,598 | | 21,892 | |
| Allowance for diminution in value | (22,953) | | - | |
| | <u>447,190</u> | | <u>497,298</u> | |
| Unquoted | | | | |
| Investment - linked funds - at cost | 39,987 | 48,261 | 39,987 | 47,040 |
| Negotiable Certificates of Deposits | 26,013 | | - | |
| Amortisation of premiums | (64) | | - | |
| | <u>25,949</u> | | <u>-</u> | |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

5 INVESTMENTS (CONTINUED)

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS (CONTINUED)

| | <u>30.6.2006</u> | | <u>31.3.05</u> | |
|--|---------------------------|---|---------------------------|-------------------------|
| | <u>Carrying value</u> | <u>Market/ indicative value</u> | <u>Carrying value</u> | <u>Market value</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Fixed and call deposits with: | | | | |
| Licensed banks | 144,056 | | 101,447 | |
| Other financial institutions | 166,190 | | 99,118 | |
| | <u>310,246</u> | | <u>200,565</u> | |
| Total investments – General Insurance and Shareholders' Funds | <u>1,102,296</u> | | <u>1,160,864</u> | |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

5 INVESTMENTS (CONTINUED)

(b)(i) LIFE INSURANCE FUND: NON INVESTMENT-LINKED

| | 30.6.06 | | 31.3.05 | |
|---|-------------------|--------------------------------|-------------------|-----------------|
| | Carrying value | Market/ indicative value | Carrying value | Market value |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Investment properties - at cost: | | | | |
| Freehold land and buildings | 191,188 | | 203,895 | |
| Leasehold land and buildings | 92,623 | | 70,152 | |
| Accumulated impairment losses | (17,723) | | (9,392) | |
| | 266,088 | | 264,655 | |
| Malaysian Government Securities - at cost | 341,290 | | 329,533 | |
| Amortisation of premiums - net | (6,272) | | (5,066) | |
| | 335,018 | 339,584 | 324,467 | 334,436 |
| Cagamas papers - at cost | 142,776 | | 11,674 | |
| Accretion of discounts | 25 | | 34 | |
| | 142,801 | 139,550 | 11,708 | 11,997 |
| Quoted in Malaysia: | | | | |
| Equity securities of corporations - at cost | 472,782 | | 521,431 | |
| Allowance for diminution in value | (23,354) | | (9,593) | |
| | 449,428 | 465,794 | 511,838 | 533,732 |
| Unit trusts - at cost | 17,556 | | 7,409 | |
| Allowance for diminution in value | (4,325) | | (4,401) | |
| | 13,231 | 13,231 | 3,008 | 3,008 |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

5 INVESTMENTS (CONTINUED)

(b)(i) LIFE INSURANCE FUND: NON INVESTMENT-LINKED (CONTINUED)

| | <u>30.6.06</u> | <u>31.3.05</u> |
|---|--------------------------------------|--|
| | Carrying value RM'000 | Market/ indicative value RM'000 |
| | <u>Carrying value RM'000</u> | <u>Market value RM'000</u> |
| Unquoted: | | |
| Equity securities of corporation - at cost | 58,455 | 27,455 |
| Allowance for diminution in value | (85) | (15,285) |
| | <u>58,370</u> | <u>12,170</u> |
| Corporate debt securities - at cost | 1,512,723 | 1,209,618 |
| Accretion of discounts - net | 28,584 | 29,597 |
| Allowance for diminution in value | (24,046) | |
| | <u>1,517,261</u> | <u>1,239,215</u> |
| Negotiable Certificates of Deposits | 339,324 | - |
| Accretion of premiums | 1,069 | - |
| | <u>340,393</u> | <u>-</u> |
| Fixed and call deposits with: | | |
| Licensed banks | 306,359 | 810,967 |
| Licensed finance companies | - | 63,436 |
| Other financial institutions | 255,178 | 255,480 |
| | <u>561,537</u> | <u>1,129,883</u> |
| Total investments – Life Insurance Fund: Non Investment-linked | <u>3,684,127</u> | <u>3,496,944</u> |

The titles to certain leasehold land included in investment properties of the Life Insurance Fund of the Company amounting to RM18,394,000 (2005: RM1,693,053) are in the process of being transferred to the Company. Risks and rewards and effective title to the leasehold land have been passed to the Company upon unconditional completion of the sale and purchase agreements. The Company has submitted all the relevant documents to the land authorities and is awaiting the process and formalities for the transfer of title to be completed by the authorities.

The fair value of the investment properties of the Life Insurance Fund of the Company at 30 June 2006 was approximately RM309,294,000 (2005: RM313,006,000).

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

5 INVESTMENTS (CONTINUED)

(b)(ii) LIFE INSURANCE FUND: INVESTMENT-LINKED

| | Carrying value RM'000 | 30.6.06 Market value RM'000 | Carrying value RM'000 | 31.3.05 Market value RM'000 |
|---|-----------------------------|--------------------------------------|-----------------------------|--------------------------------------|
| Quoted in Malaysia: | | | | |
| Equity securities of corporations - at cost | - | - | 19,023 | 15,747 |
| Unrealised loss | - | | (3,276) | |
| | - | | 15,747 | |
| Unquoted: | | | | |
| Corporate debt securities - at cost | - | | 5,257 | |
| Unrealised loss | - | | (47) | |
| | - | | 5,210 | |
| Fixed and call deposits with: | | | | |
| Licensed banks | 2,688 | | 2,075 | |
| Other financial institutions | 45,891 | | 24,473 | |
| | 48,579 | | 26,548 | |
| Total investments – Life Insurance Fund: Investment-linked (Note 26) | 48,579 | | 47,505 | |

The maturity structure of Malaysian Government Securities, Cagamas papers, corporate debt securities and fixed and call deposits above is as follows:

General Insurance and Shareholders' Funds

| | 30.6.06 RM'000 | 31.3.05 RM'000 |
|------------------------------------|-------------------|-------------------|
| Investments maturing within 1 year | 423,876 | 268,423 |
| Investments maturing after 1 year | 401,193 | 502,590 |
| | 825,069 | 771,013 |

Life Insurance Fund and Investment Linked Fund

| | 30.6.06 RM'000 | 31.3.05 RM'000 |
|------------------------------------|-------------------|-------------------|
| Investments maturing within 1 year | 750,201 | 1,071,053 |
| Investments maturing after 1 year | 2,195,388 | 1,665,978 |
| | 2,945,589 | 2,737,031 |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

6 LOANS

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|------------------------------|--------------------------|--------------------------|
| Staff loans (secured) | 2,525 | 3,904 |
| Other secured loans | 28,728 | 11,383 |
| Unsecured loans | 388 | 598 |
| Allowance for doubtful debts | (333) | (429) |
| | <u>31,308</u> | <u>15,456</u> |
| Receivable within 1 year | 8,386 | 11,404 |
| Receivable after 1 year | 22,922 | 4,052 |
| | <u>31,308</u> | <u>15,456</u> |

(b) LIFE INSURANCE FUND

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|------------------------------|--------------------------|--------------------------|
| Policy loans | 144,540 | 139,599 |
| Mortgage loans | 11,503 | 14,045 |
| Staff loans (secured) | 18,056 | 19,339 |
| Other secured loans | 21,676 | 13,127 |
| | 195,775 | 186,110 |
| Interest-in-suspense | (5,394) | (6,658) |
| Allowance for doubtful debts | (164) | (552) |
| | <u>190,217</u> | <u>178,900</u> |
| Receivable within 1 year | 2,375 | 15,295 |
| Receivable after 1 year | 187,842 | 163,605 |
| | <u>190,217</u> | <u>178,900</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

7 SUBSIDIARY COMPANIES

| | <u>General Insurance and Shareholders' Funds</u> | |
|-------------------------------|--|----------------|
| | <u>30.6.06</u> | <u>31.3.05</u> |
| | RM'000 | RM'000 |
| Unquoted shares, at cost | 415,978 | 339,978 |
| Allowance for impairment loss | (244,853) | (244,853) |
| | <u>171,125</u> | <u>95,125</u> |

Details of the subsidiary companies are as follows:

| <u>Name of company</u> | <u>Country of incorporation</u> | <u>Company's effective interest</u> | | <u>Principal activities</u> |
|---|---------------------------------|-------------------------------------|---------------------|--|
| | | <u>30.6.06</u> % | <u>31.3.05</u> % | |
| Takaful Nasional Sdn. Berhad (Note 29) | Malaysia | 100 | 80 | Underwriting of Family and General Takaful businesses |
| MNI Offshore Insurance (L) Ltd. | Malaysia | 100 | 100 | Offshore general reinsurance business and the provision of bureau services to offshore reinsurers in the Federal Territory of Labuan |
| MNI Life International (L) Ltd. | Malaysia | 100 | 100 | Offshore life insurance business |
| Double Care Sdn. Bhd. | Malaysia | 100 | 100 | Investment holding |
| Peram Ranum Berhad | Malaysia | 100 | 100 | Dormant |

8 DUE FROM/(TO) RELATED COMPANIES

GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | <u>30.6.06</u> | <u>31.3.05</u> |
|------------------------------------|----------------|----------------|
| | RM'000 | RM'000 |
| Due from holding company | 1 | 5 |
| Due from subsidiaries | 377 | 747 |
| | <u>378</u> | <u>752</u> |
| Due to penultimate holding company | 7 | - |
| Due to subsidiary | 17,091 | - |
| | <u>17,098</u> | <u>-</u> |

The amounts due from subsidiaries and related companies are unsecured, non-trade in nature, interest free and have no fixed terms of repayment.

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9 TRADE AND OTHER RECEIVABLES

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|---|--------------------------|--------------------------|
| <u>Trade receivables</u> | | |
| Due premiums from agents, brokers and co-insurers balances | 152,382 | 141,987 |
| Due from reinsurers and cedants | 40,977 | 35,371 |
| Allowance for doubtful debts | (39,372) | (50,749) |
| | <u>153,987</u> | <u>126,609</u> |
| <u>Other receivables</u> | | |
| Other receivables, deposits and prepayments | 29,610 | 7,644 |
| Income due and accrued | 8,228 | 8,825 |
| Due from Life Insurance Fund (Note 12(b)) | 39,219 | 44,827 |
| | <u>77,057</u> | <u>61,296</u> |
| | <u>231,044</u> | <u>187,905</u> |

(b) LIFE INSURANCE FUND

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|--|--------------------------|--------------------------|
| <u>Trade receivables</u> | | |
| Due premiums including agents, brokers and co-insurers balances | 13,075 | 14,562 |
| Amount due from reinsurers | 3,262 | 2,989 |
| | <u>16,337</u> | <u>17,551</u> |
| Allowance for doubtful debts | (2,873) | (1,704) |
| | <u>13,464</u> | <u>15,847</u> |
| <u>Other receivables</u> | | |
| Other receivables, deposits and prepayments | 12,173 | 1,900 |
| Income due and accrued | 41,479 | 33,130 |
| | <u>53,652</u> | <u>35,030</u> |
| | <u>67,116</u> | <u>50,877</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

| | | | |
|----|---|--------------------------|--------------------------|
| 10 | CASH AND CASH EQUIVALENTS | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
| | Cash and bank balances | | |
| | - General Insurance and Shareholders' Funds | 61,729 | 28,224 |
| | - Life Insurance Fund | 48,018 | 38,560 |
| | - Life Insurance Investment-linked Fund (Note 26) | 432 | 73 |
| | Cash and cash equivalents | <u>110,179</u> | <u>66,857</u> |
| 11 | PROVISION FOR OUTSTANDING CLAIMS | | |
| | (a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS | | |
| | | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
| | Provision for outstanding claims | 586,785 | 748,722 |
| | Recoverable from reinsurers | (355,619) | (494,658) |
| | Net outstanding claims | <u>231,166</u> | <u>254,064</u> |
| | (b) LIFE INSURANCE FUND | | |
| | | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
| | Provision for outstanding claims | 8,296 | 9,150 |
| | Recoverable from reinsurers | (9) | (232) |
| | Net outstanding claims | <u>8,287</u> | <u>8,918</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

12 TRADE AND OTHER PAYABLES

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|--|--------------------------|--------------------------|
| <u>Trade payables</u> | | |
| Due to agents, brokers, co-insurers and insureds | 45,807 | 44,602 |
| Due to reinsurers and cedants | 161,133 | 126,520 |
| | <u>206,940</u> | <u>171,122</u> |
| <u>Other payables</u> | | |
| Other payables and accrued liabilities | 90,046 | 27,205 |
| Dividend payable | - | 23,005 |
| | <u>90,046</u> | <u>50,210</u> |
| | <u>296,986</u> | <u>221,332</u> |

(b) LIFE INSURANCE FUND

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|--|--------------------------|--------------------------|
| <u>Trade payables</u> | | |
| Due to agents, brokers, co-insurers and insureds | 3,168 | 5,194 |
| Due to reinsurers | 6,639 | 7,074 |
| | <u>9,807</u> | <u>12,268</u> |
| <u>Other payables</u> | | |
| Other payables and accrued liabilities | 80,645 | 92,563 |
| Due to General Insurance and Shareholders' Funds (Note 9(a)) | 39,219 | 44,827 |
| | <u>119,864</u> | <u>137,390</u> |
| | <u>129,671</u> | <u>149,658</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

13 DEFERRED TAXATION

| | <u>General Insurance and Shareholders' Funds</u> | | <u>Life Insurance Fund</u> | |
|--|--|----------------|----------------------------|----------------|
| | <u>30.6.06</u> | <u>31.3.05</u> | <u>30.6.06</u> | <u>31.3.05</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At beginning of financial period/year | 15,534 | 16,920 | 191 | 1,011 |
| Recognised in income statement (Note 22) | (341) | (1,386) | 2,796 | (820) |
| At end of financial period/year | <u>15,193</u> | <u>15,534</u> | <u>2,987</u> | <u>191</u> |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax liabilities shown in the balance sheet have been determined after appropriate offsetting.

| | <u>General Insurance and Shareholders' Funds</u> | | <u>Life Insurance Fund</u> | |
|--|--|----------------|----------------------------|----------------|
| | <u>30.6.06</u> | <u>31.3.05</u> | <u>30.6.06</u> | <u>31.3.05</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Presented after appropriate offsetting as follows: | | | | |
| Deferred tax liabilities | (6,514) | (7,611) | (2,703) | (2,363) |
| Deferred tax assets | 21,707 | 23,145 | 5,690 | 2,554 |
| | <u>15,193</u> | <u>15,534</u> | <u>2,987</u> | <u>191</u> |

The components and movements of deferred tax liabilities and assets during the financial period prior to offsetting are as follows:

Deferred tax liabilities

GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | <u>Accelerated capital allowances</u> | <u>Net accretion/discount on investments</u> | <u>Total</u> |
|------------------------------------|---------------------------------------|--|----------------|
| | RM'000 | RM'000 | RM'000 |
| <u>2006</u> | | | |
| At 1 April 2005 | (3,421) | (4,190) | (7,611) |
| Recognised in the income statement | 2,912 | (1,815) | 1,097 |
| At 30 June 2006 | <u>(509)</u> | <u>(6,005)</u> | <u>(6,514)</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

13 DEFERRED TAXATION (CONTINUED)

Deferred tax liabilities (continued)

GENERAL INSURANCE AND SHAREHOLDERS' FUNDS (CONTINUED)

| | <u>Accelerated capital allowances</u> RM'000 | <u>Net accretion/ discount on investments</u> RM'000 | <u>Total</u> RM'000 |
|------------------------------------|---|---|------------------------|
| <u>2005</u> | | | |
| At 1 April 2004 | (6,773) | (4,321) | (11,094) |
| Recognised in the income statement | 3,352 | 131 | 3,483 |
| At 31 March 2005 | <u>(3,421)</u> | <u>(4,190)</u> | <u>(7,611)</u> |

LIFE INSURANCE FUND

| | <u>Accelerated capital allowances</u> RM'000 | <u>Net accretion/ discount on investments</u> RM'000 | <u>Total</u> RM'000 |
|------------------------------------|---|---|------------------------|
| <u>2006</u> | | | |
| At 1 April 2005 | (397) | (1,966) | (2,363) |
| Recognised in the income statement | (347) | 7 | 340 |
| At 30 June 2006 | <u>(744)</u> | <u>(1,959)</u> | <u>(2,703)</u> |
| <u>2005</u> | | | |
| At 1 April 2004 | (443) | (856) | (1,299) |
| Recognised in the income statement | 46 | (1,110) | (1,064) |
| At 31 March 2005 | <u>(397)</u> | <u>(1,966)</u> | <u>(2,363)</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

13 DEFERRED TAXATION (CONTINUED)

Deferred Tax Assets

GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | Allowance for diminution in investments | Allowance for doubtful debts | Others | Total |
|------------------------------------|---|------------------------------------|--------------|---------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>2006</u> | | | | |
| At 1 April 2005 | 8,448 | 13,132 | 1,565 | 23,145 |
| Recognised in the income statement | 653 | (2,007) | (84) | (1,438) |
| | <u>9,101</u> | <u>11,125</u> | <u>1,481</u> | <u>21,707</u> |
| At 30 June 2006 | <u>9,101</u> | <u>11,125</u> | <u>1,481</u> | <u>21,707</u> |
| <u>2005</u> | | | | |
| At 1 April 2004 | 9,959 | 15,987 | 2,068 | 28,014 |
| Recognised in the income statement | (1,515) | (2,855) | (503) | (4,869) |
| | <u>8,448</u> | <u>13,132</u> | <u>1,565</u> | <u>23,145</u> |
| At 31 March 2005 | <u>8,448</u> | <u>13,132</u> | <u>1,565</u> | <u>23,145</u> |

LIFE INSURANCE FUND

| | Allowance for diminution in investments | Allowance for doubtful debts | Others | Total |
|------------------------------------|---|------------------------------------|------------|--------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>2006</u> | | | | |
| At 1 April 2005 | - | 2,343 | 211 | 2,554 |
| Recognised in the income statement | 1,418 | 1,795 | (77) | 3,136 |
| | <u>1,418</u> | <u>4,138</u> | <u>134</u> | <u>5,690</u> |
| At 30 June 2006 | <u>1,418</u> | <u>4,138</u> | <u>134</u> | <u>5,690</u> |
| <u>2005</u> | | | | |
| At 1 April 2004 | - | 1,991 | 321 | 2,312 |
| Recognised in the income statement | - | 352 | (110) | 242 |
| | <u>-</u> | <u>2,343</u> | <u>211</u> | <u>2,554</u> |
| At 31 March 2005 | <u>-</u> | <u>2,343</u> | <u>211</u> | <u>2,554</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

14 **UNEARNED PREMIUM RESERVES**

GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | Fire RM'000 | Motor RM'000 | Marine, aviation & transit RM'000 | Miscellaneous RM'000 | Total RM'000 |
|--|------------------------|----------------------|--|-------------------------|------------------------|
| <u>2006</u> | | | | | |
| <u>Short term</u> | | | | | |
| At 1 April 2005 | 16,176 | 50,955 | 5,737 | 25,150 | 98,018 |
| (Decrease)/increase in the financial period | (2,919) | 2,167 | 1,511 | 16,080 | 16,839 |
| At 30 June 2006 | <u>13,257</u> | <u>53,122</u> | <u>7,248</u> | <u>41,230</u> | <u>114,857</u> |
| <u>Long term</u> | | | | | |
| At 1 April 2005 | 58,807 | - | 39 | 250 | 59,096 |
| (Decrease)/increase in the financial period | (7,668) | 21 | (14) | 907 | (6,754) |
| At 30 June 2006 | <u>51,139</u> | <u>21</u> | <u>25</u> | <u>1,157</u> | <u>52,342</u> |
| Total | <u><u>64,396</u></u> | <u><u>53,143</u></u> | <u><u>7,273</u></u> | <u><u>42,387</u></u> | <u><u>167,199</u></u> |
| Total (decrease)/increase in the financial period | <u><u>(10,587)</u></u> | <u><u>2,188</u></u> | <u><u>1,497</u></u> | <u><u>16,987</u></u> | <u><u>10,085</u></u> |
| <u>2005</u> | | | | | |
| <u>Short term</u> | | | | | |
| At 1 April 2004 | 16,012 | 48,635 | 6,483 | 44,481 | 115,611 |
| Increase/(decrease) in the financial year | 164 | 2,320 | (746) | (19,331) | (17,593) |
| At 31 March 2005 | <u>16,176</u> | <u>50,955</u> | <u>5,737</u> | <u>25,150</u> | <u>98,018</u> |
| <u>Long term</u> | | | | | |
| At 1 April 2004 | 67,157 | - | - | - | 67,157 |
| (Decrease)/increase in the financial year | (8,350) | - | 39 | 250 | (8,061) |
| At 31 March 2005 | <u>58,807</u> | <u>-</u> | <u>39</u> | <u>250</u> | <u>59,096</u> |
| Total | <u><u>74,983</u></u> | <u><u>50,955</u></u> | <u><u>5,776</u></u> | <u><u>25,400</u></u> | <u><u>157,114</u></u> |
| Total (decrease)/increase in the financial year | <u><u>(8,186)</u></u> | <u><u>2,320</u></u> | <u><u>(707)</u></u> | <u><u>(19,081)</u></u> | <u><u>(25,654)</u></u> |

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15 LIFE INSURANCE POLICYHOLDERS' FUND

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|---|--------------------------|--------------------------|
| Actuarial liabilities | 3,264,260 | 3,117,004 |
| Unallocated surplus | 556,351 | 467,384 |
| Investment - linked policyholders' account (Note 26) | 48,261 | 47,178 |
| Life insurance policyholders' fund | <u>3,868,872</u> | <u>3,631,566</u> |
| <u>Actuarial liabilities</u> | | |
| At 1 April 2005/2004 | 3,117,004 | 2,326,816 |
| Add: Increase in policy reserves | 89,013 | 737,097 |
| Bonus allocated to participating policyholders, including interim bonus from normal surplus | 64,899 | 57,101 |
| Less: Interim bonus paid | (6,656) | (4,010) |
| | <u>147,256</u> | <u>790,188</u> |
| At 30 June/31 March | <u>3,264,260</u> | <u>3,117,004</u> |
| <u>Unallocated surplus</u> | | |
| At 1 April 2005/2004 | 467,384 | 424,063 |
| Add: Surplus arising during the financial period/year | 193,866 | 130,422 |
| Less: Bonus allocated to policyholders, including interim bonus from normal surplus | (64,899) | (57,101) |
| Transfer to Income Statement (Page 19) | (40,000) | (30,000) |
| | <u>88,967</u> | <u>43,321</u> |
| At 30 June/31 March | <u>556,351</u> | <u>467,384</u> |

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16 LIFE INSURANCE FUND ASSET REVALUATION RESERVE

| | <u>30.6.06</u> RM'000 | <u>31.3.05</u> RM'000 |
|---------------------|--------------------------|--------------------------|
| At 30 June/31 March | <u>1,825</u> | <u>1,825</u> |

The Life Insurance Fund asset revaluation reserve relates to revaluation reserve of investment properties of a related company acquired at cost. These assets were previously revalued prior to the acquisition based on the open market value basis by a firm of professional valuers in the financial year ended 30 June 1997. No valuation has been performed since then.

17 SHARE CAPITAL

| | <u>30.6.06</u> | | <u>31.3.05</u> | |
|--|--------------------------------------|--------------------------|--------------------------------------|--------------------------|
| | <u>Number of shares '000</u> | <u>Amount RM'000</u> | <u>Number of shares '000</u> | <u>Amount RM'000</u> |
| Authorised ordinary shares of RM1 each: At 30 June/31 March | <u>500,000</u> | <u>500,000</u> | <u>500,000</u> | <u>500,000</u> |
| Issued and fully paid ordinary shares of RM1 each: At 30 June/31 March | <u>152,151</u> | <u>152,151</u> | <u>152,151</u> | <u>152,151</u> |

18 OPERATING REVENUE

| | <u>Shareholders' Fund RM'000</u> | <u>General Insurance Fund RM'000</u> | <u>Life Insurance Fund RM'000</u> | <u>Investment- linked Fund RM'000</u> | <u>Total RM'000</u> |
|-----------------------------|--|--|---|---|-------------------------|
| <u>2006</u> | | | | | |
| Gross premium | - | 717,534 | 498,017 | - | 1,215,551 |
| Investment income (Note 19) | 29,263 | 46,271 | 243,897 | 2,155 | 321,586 |
| | <u>29,263</u> | <u>763,805</u> | <u>741,914</u> | <u>2,155</u> | <u>1,537,137</u> |
| <u>2005</u> | | | | | |
| Gross premium | - | 434,452 | 1,026,204 | - | 1,460,656 |
| Investment income (Note 19) | 21,531 | 32,071 | 157,171 | 1,569 | 212,342 |
| | <u>21,531</u> | <u>466,523</u> | <u>1,183,375</u> | <u>1,569</u> | <u>1,672,998</u> |

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19 INVESTMENT INCOME

(a) SHAREHOLDERS' FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--------------------------------------|--|--|
| Gross dividend from: | | |
| Equity securities quoted in Malaysia | 8,717 | 4,842 |
| Unquoted shares | 8,535 | 4,613 |
| Interest income from: | | |
| Malaysian Government Securities | 232 | - |
| Unquoted debentures | 5,269 | 4,121 |
| Other loans | 1,135 | 1,000 |
| Fixed and call deposits | 3,082 | 2,126 |
| Rental income | 676 | 847 |
| Accretion of discounts – net | 1,617 | 3,982 |
| | <u>29,263</u> | <u>21,531</u> |

(b) GENERAL INSURANCE FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--------------------------------------|--|--|
| Gross dividends from: | | |
| Equity securities quoted in Malaysia | 8,571 | 5,533 |
| Other quoted investments | 59 | 10 |
| Unquoted shares | 5,000 | - |
| Interest income from: | | |
| Malaysian Government Securities | 4,678 | 5,296 |
| Unquoted debentures | 21,819 | 16,055 |
| Other loans | 515 | 672 |
| Fixed and call deposits | 5,842 | 4,837 |
| Amortisation of premiums – net | (213) | (332) |
| | <u>46,271</u> | <u>32,071</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

19 INVESTMENT INCOME (CONTINUED)

(c) LIFE INSURANCE FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--------------------------------------|--|--|
| Gross dividends from: | | |
| Equity securities quoted in Malaysia | 37,102 | 21,663 |
| Unquoted shares | 12,636 | 736 |
| Unit trusts | 305 | - |
| Interest income: | | |
| Malaysian Government Securities | 23,749 | 15,057 |
| Cagamas papers | 5,180 | 921 |
| Government guaranteed loans | - | - |
| Unquoted debentures | 99,261 | 67,456 |
| Mortgage loans | 1,214 | 1,429 |
| Policy loans | 13,268 | 9,953 |
| Other loans | 1,293 | 1,559 |
| Fixed and call deposits | 33,532 | 23,053 |
| Rental income | 11,349 | 10,131 |
| Accretion of discounts – net | 5,077 | 5,323 |
| | <u>243,966</u> | <u>157,281</u> |
| Less: Investment expenses | (69) | (110) |
| | <u><u>243,897</u></u> | <u><u>157,171</u></u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

19 INVESTMENT INCOME (CONTINUED)

(d) LIFE INSURANCE INVESTMENT-LINKED FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--------------------------------------|--|--|
| Gross dividends from: | | |
| Equity securities quoted in Malaysia | 749 | 553 |
| Interest income from: | | |
| Unquoted debentures | 447 | 360 |
| Fixed and call deposits | 1,021 | 670 |
| Amortisation of premiums – net | (62) | (14) |
| | <u>2,155</u> | <u>1,569</u> |

20 OTHER OPERATING INCOME/(EXPENDITURE) - NET

(a) SHAREHOLDERS' FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--|--|--|
| Net (loss)/gain on disposal of investments | (1,644) | 7,951 |
| Allowance for diminution in value of investments | (6,856) | (2,485) |
| Gain on disposal of property and equipment | 7,611 | 179 |
| Impairment loss on a subsidiary (Note 7) | - | (244,853) |
| Waiver of intercompany balance | - | 244,853 |
| Others | 11 | 36 |
| | <u>(878)</u> | <u>5,681</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

20 OTHER OPERATING INCOME/(EXPENDITURE) - NET (CONTINUED)

(b) GENERAL INSURANCE FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--|--|--|
| Net gain on disposal of investments | 5,659 | 9,887 |
| Write back of diminution in value of investments | 4,549 | 1,594 |
| Others | (117) | 2,053 |
| | <u>10,091</u> | <u>13,534</u> |

(c) LIFE INSURANCE FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--|--|--|
| Net gain on disposal of investments | 28,652 | 32,187 |
| Allowance for diminution in value of investments | (22,530) | (4,398) |
| Impairment loss on investment properties | (8,331) | - |
| Gain on disposal of property and equipment | 4 | 94 |
| Realised (loss)/gain on foreign exchange | (14) | 1 |
| Others | (79) | (1,120) |
| | <u>(2,298)</u> | <u>26,764</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

21 MANAGEMENT EXPENSES

(a) SHAREHOLDERS' FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--|--|--|
| Staff salaries and bonus | 326 | 362 |
| Defined contribution plan | 82 | 57 |
| Others | 71 | 138 |
| Staff cost | <u>479</u> | <u>557</u> |
| Non-executive Directors: | | |
| - Fees | 509 | 504 |
| - Other emoluments | 203 | 266 |
| Directors' remuneration | <u>712</u> | <u>770</u> |
| Depreciation of property and equipment | 1,928 | 2,307 |
| Auditors' remuneration | 11 | 14 |
| Rental of premises | 44 | 41 |
| Electronic data processing expenses | 2 | 11 |
| Others | 134 | 504 |
| | <u>2,119</u> | <u>2,877</u> |
| | <u>3,310</u> | <u>4,204</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

21 MANAGEMENT EXPENSES (CONTINUED)

(b) GENERAL INSURANCE FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--|--|--|
| Staff salaries and bonus | 34,980 | 27,361 |
| Defined contribution plan | 5,525 | 4,329 |
| Others | 2,169 | 2,177 |
| | <u>42,674</u> | <u>33,867</u> |
| Staff cost (excluding executive director's) | | |
| Executive Director: | | |
| - Salaries and bonus | 649 | 433 |
| - Defined contribution plan | 95 | 68 |
| - Other emoluments | 42 | 16 |
| | <u>786</u> | <u>517</u> |
| Directors' remuneration | | |
| Depreciation of property and equipment | 11,056 | 13,389 |
| Auditors' remuneration | 218 | 172 |
| Rental of premises | 6,576 | 5,092 |
| Advertising and promotion | 5,919 | 4,697 |
| (Write back of)/allowance for doubtful debts | (7,552) | (5,086) |
| Bad debts written off | - | 213 |
| Clearance old balance payable | (3,329) | - |
| Accrual for Insurance Guarantee Scheme | | |
| Fund levy | 404 | 1,358 |
| Electronic data processing expenses | 6,770 | 6,943 |
| Repairs and maintenance | 996 | 904 |
| Others | 13,430 | 11,088 |
| | <u>34,488</u> | <u>38,770</u> |
| | <u>77,948</u> | <u>73,154</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

21 MANAGEMENT EXPENSES (CONTINUED)

(c) LIFE INSURANCE FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--|--|--|
| Staff salaries and bonus | 21,131 | 16,167 |
| Defined contribution plan | 3,475 | 2,606 |
| Others | 1,267 | 48 |
| | <u>25,873</u> | <u>18,821</u> |
| Executive Director: | | |
| - Salaries and bonus | 320 | 213 |
| - Defined contribution plan | 47 | 34 |
| - Other emoluments | 20 | 8 |
| | <u>387</u> | <u>255</u> |
| Directors' remuneration | | |
| Depreciation of property and equipment | 3,026 | 2,184 |
| Auditors' remuneration | 129 | 87 |
| Rental of premises | 3,943 | 3,573 |
| Electronic data processing expenses | 4,261 | 5,614 |
| Advertising and promotion | 1,549 | 1,885 |
| Allowance for/(write back) of doubtful debts | 1,602 | (2,813) |
| Others | 6,214 | 4,689 |
| | <u>20,724</u> | <u>15,219</u> |
| | <u>46,984</u> | <u>34,295</u> |

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial period amounted to RM1,225,386 (2005: RM793,475). The estimated monetary value of benefits-in-kind provided to the Chief Executive Officer during the financial period amounted to RM47,060 (2005: RM45,193).

The estimated monetary value of benefits-in-kind provided to Directors during the financial period by way of usage of the Company's assets amounted to RM57,218 (2005: RM34,632).

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

22 TAXATION

(a) GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|---|--|--|
| Income tax: | | |
| Current year's provision | | |
| - Malaysia | 35,888 | 20,997 |
| Deferred taxation: | | |
| Relating to origination and reversal of temporary (Note 13) | 341 | 1,386 |
| | <u>36,229</u> | <u>22,383</u> |
| Under/(over) provision of taxation for prior years | 22,193 | (1,923) |
| | <u>58,422</u> | <u>20,460</u> |

Domestic income tax for general insurance and shareholders' funds is calculated at the Malaysian statutory rate of 28% (2005: 28%) of the estimated assessable profit for the year except for life business at Malaysian statutory tax rate of 8% (2005: 8%) of the estimated assessable profit/surplus for the year.

A reconciliation of income tax expenses applicable to profit/surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|---|--|--|
| Profit before taxation | <u>128,120</u> | <u>86,463</u> |
| Taxation at Malaysian statutory tax rate of 28% (2005: 28%) | | 35,874 |
| Business outside Malaysia taxed at 5% | (1,548) | - |
| Income not subject to tax | (1,270) | (3,762) |
| Expenses not deductible for tax purposes | 3,173 | 1,935 |
| Under/(over) provision of income tax in prior years | 22,193 | (1,923) |
| Tax expense for the financial period/year | <u>58,422</u> | <u>20,460</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

22 TAXATION (CONTINUED)

(b) (i) LIFE INSURANCE FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|--|--|--|
| Income tax: | | |
| Current financial period's/year's provision | 21,396 | 14,777 |
| Deferred taxation: | | |
| Relating to origination and reversal of Temporary differences (Note 13) | (2,796) | 820 |
| | <u>18,600</u> | <u>15,597</u> |

(b) (ii) INVESTMENT-LINKED FUND

| | 1.4.05 to <u>30.6.06</u> RM'000 | 1.4.04 to <u>31.3.05</u> RM'000 |
|---|--|--|
| Income tax: | | |
| Current financial period's/year's provision | - | 132 |
| Deferred taxation: | | |
| Relating to origination and reversal of temporary | 277 | (301) |
| | <u>277</u> | <u>(169)</u> |
| Surplus before taxation: | | |
| - Life business | 294,720 | 879,092 |
| - Investment-linked fund (Note 26) | 1,463 | (2,539) |
| | <u>296,183</u> | <u>876,553</u> |
| Taxation at Malaysian tax charge of 8% | 23,695 | 70,124 |
| Income not subject to tax | (39,427) | (81,748) |
| Expenses not deductible for tax purposes | 34,609 | 27,502 |
| Tax expense for the financial period/year | | |
| - Life business | 18,600 | 15,597 |
| - Investment-linked fund (Note 26) | 277 | (169) |
| | <u>18,877</u> | <u>15,428</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

22 TAXATION (CONTINUED)

(b) LIFE INSURANCE FUND (CONTINUED)

As at 30 June 2006, the Company has tax exempt profits available for distribution of approximately RM130,000 (2005: RM130,000).

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and exempt income to frank the payment of dividends out of its entire retained earnings as at 30 June 2006.

23 DIVIDENDS

| | 2006 | | 2005 | |
|------------------|---------------------------------|--|---------------------------------|--|
| | Gross dividend per share Sen | Amount of dividend, net of tax RM'000 | Gross dividend per share Sen | Amount of dividend, net of tax RM'000 |
| Interim dividend | - | - | 21.0 | 23,005 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

The directors do not recommend the payment of any final dividends in respect of the current financial period.

24 EARNINGS PER SHARE

The basic earnings per share are calculated as follows:

| Net profit for the financial period/year | | Weighted average number of shares | | Earnings per share | |
|--|-------------------|-----------------------------------|-------------------|--------------------|-------------------|
| 30.6.06 | 31.3.05 | 30.6.06 | 31.3.05 | 30.6.06 | 31.3.05 |
| RM'000 | RM'000 | | | sen | sen |
| 69,698 | 66,003 | 152,151 | 152,151 | 45.8 | 43.4 |
| <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

25 NET CLAIMS INCURRED

(a) GENERAL INSURANCE FUND

| | <u>Fire</u> RM'000 | <u>Motor</u> RM'000 | <u>Marine, aviation & transit</u> RM'000 | <u>Miscellaneous</u> RM'000 | <u>Total</u> RM'000 |
|----------------------------------|-----------------------|------------------------|---|--------------------------------|------------------------|
| <u>2006</u> | | | | | |
| Gross claims paid less salvage | 23,754 | 117,129 | 146,453 | 166,107 | 453,443 |
| Reinsurance recoveries | (12,374) | (7,655) | (137,444) | (128,224) | (285,697) |
| Net claims paid | 11,380 | 109,474 | 9,009 | 37,883 | 167,746 |
| Net outstanding claims: | | | | | |
| At end of financial period | 18,669 | 122,809 | 30,169 | 59,519 | 231,166 |
| At beginning of financial period | (17,545) | (136,150) | (36,141) | (64,228) | (254,064) |
| Net claims incurred | <u>12,504</u> | <u>96,133</u> | <u>3,037</u> | <u>33,174</u> | <u>144,848</u> |
| <u>2005</u> | | | | | |
| Gross claims paid less salvage | 16,004 | 83,656 | 66,749 | 144,849 | 311,258 |
| Reinsurance recoveries | (5,345) | (4,987) | (51,060) | (109,376) | (170,768) |
| Net claims paid | 10,659 | 78,669 | 15,689 | 35,473 | 140,490 |
| Net outstanding claims: | | | | | |
| At end of financial year | 17,545 | 136,150 | 36,141 | 64,228 | 254,064 |
| At beginning of financial year | (18,877) | (114,706) | (44,078) | (72,529) | (250,190) |
| Net claims incurred | <u>9,327</u> | <u>100,113</u> | <u>7,752</u> | <u>27,172</u> | <u>144,364</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

26 INVESTMENT-LINKED BUSINESS

BALANCE SHEET

| | <u>2006</u> RM'000 | <u>2005</u> RM'000 |
|--|-----------------------|-----------------------|
| <u>Assets</u> | | |
| Investments (Note 5(b)(ii)) | 48,579 | 47,505 |
| Sundry receivables | 128 | 344 |
| Cash and bank balance (Note 10) | 432 | 73 |
| Tax recoverable | 519 | 519 |
| Deferred tax assets | - | 277 |
| | <u>49,658</u> | <u>48,718</u> |
| <u>Liabilities</u> | | |
| Tax payable | <u>1,397</u> | <u>1,540</u> |
| Net asset value of funds | <u>48,261</u> | <u>47,178</u> |
| <u>Represented by:</u> | | |
| Investment-linked policyholders' account: | | |
| At beginning of financial period/year | 47,178 | 49,562 |
| Net cancellation of units | (103) | (14) |
| Net surplus/(deficit) for the financial period/ year after taxation | <u>1,186</u> | <u>(2,370)</u> |
| At end of financial period/year | <u>48,261</u> | <u>47,178</u> |

STATEMENT OF INCOME AND EXPENDITURE

| | <u>2006</u> RM'000 | <u>2005</u> RM'000 |
|---|-----------------------|-----------------------|
| Investment income (Note 19(d)) | 2,155 | 1,569 |
| Other income | 6,261 | 674 |
| Other outgo | <u>(6,953)</u> | <u>(4,782)</u> |
| Surplus/(deficit) before taxation | 1,463 | (2,539) |
| Taxation | | |
| - Current tax | - | (132) |
| - Deferred tax | <u>(277)</u> | <u>301</u> |
| Net surplus/(deficit) for the financial period/year after taxation | <u>1,186</u> | <u>(2,370)</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

27 CAPITAL COMMITMENTS

| | <u>General Insurance and Shareholders' Funds</u> | | <u>Life Insurance Fund</u> | |
|--------------------------------------|--|--------------|----------------------------|---------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Authorised and contracted for: | | | | |
| - Property and equipment | 2,272 | - | 194 | 4,831 |
| - Broadband leased-line connectivity | 695 | - | - | - |
| Authorised but not contracted for: | | | | |
| - Property and equipment | 2,217 | 7,629 | - | 5,669 |
| | <u>5,184</u> | <u>7,629</u> | <u>194</u> | <u>10,500</u> |

28 CHANGE IN ACCOUNTING POLICY

During the financial period, the Company has accounted for a change in accounting policy retrospectively as a prior year adjustment arising from the adoption of the Company's ultimate holding company's accounting policy on goodwill. Goodwill arising on acquisition of business is written off/credited in full to retained profits immediately, instead of the previous policy whereby goodwill was amortised over a period of seven years.

The change in accounting policy has the effect of increasing the Company's net profit for the prior financial period by RM10,205,000.

The other effects of the change in accounting policy on the Company's financial statements are summarised as follows:

| | <u>As previously reported</u> | <u>Effects of change in accounting policy</u> | <u>As restated</u> |
|--|-------------------------------|---|--------------------|
| | RM '000 | RM '000 | RM '000 |
| General Insurance and Shareholders' Fund | | | |
| Retained Earnings: | | | |
| At 1 April 2005 | 768,072 | (22,112) | 745,960 |
| At 1 April 2004 | 735,279 | (32,317) | 702,962 |
| Comprising adjustment on goodwill: | | | |
| At 1 April 2005 | 22,112 | (22,112) | - |
| At 1 April 2004 | 32,317 | (32,317) | - |
| Financial year ended 31 March 2005: | | | |
| - Net profit for the financial year | 55,798 | 10,205 | 66,003 |
| Comprising the following adjustment: | | | |
| - Amortisation of goodwill (Note 2a) | (10,205) | 10,205 | - |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

29 SIGNIFICANT EVENT

During the financial period, the Company completed the purchase of 20,000,000 units of ordinary shares of RM1.00 each of Takaful Nasional Sdn Berhad ("TNSB"), for a total purchase price of RM76,000,000. This constituted 20% of the issued and paid up capital of TNSB. As a result, the Company's equity interest in TNSB increased to 100%.

30 ADJUSTMENTS FOR NON-CASH ITEMS

| | <u>2006</u> RM'000 | <u>2005</u> RM'000 |
|--|-----------------------|-----------------------|
| Property and equipment: | | |
| - depreciation | 16,010 | 17,880 |
| - gain on disposal | (7,615) | (273) |
| Write back of doubtful debts | (5,950) | (7,899) |
| Credit balance written off | (3,329) | - |
| Bad debts written off | - | 213 |
| Increase/(decrease) in unearned premium reserves | 10,085 | (25,654) |
| Gain on disposal of investments | (32,667) | (50,095) |
| Investment income | (325,197) | (203,383) |
| Accretion of discounts - net | (6,419) | (8,959) |
| Allowance for diminution in value of investments | 24,837 | 9,003 |
| Impairment loss on investment property | 8,331 | - |
| Impairment loss on a subsidiary | - | 244,853 |
| Waiver of intercompany balance | - | (244,853) |
| Increase in Life Insurance fund | 237,306 | 831,125 |
| | <u>(84,608)</u> | <u>561,958</u> |

31 CHANGES IN WORKING CAPITAL

| | | |
|--|---------------|------------------|
| (Increase)/decrease in trade receivables | (18,000) | 73,926 |
| (Increase)/decrease in other receivables | (39,751) | 55,532 |
| Increase/(decrease) in trade payables | 36,686 | (52,664) |
| Increase/(decrease) in other payables | 63,668 | (20,782) |
| (Decrease)/increase in provision for outstanding claims | (23,529) | 5,474 |
| (Decrease)/increase in loans receivables | (27,169) | 13,853 |
| Decrease/(increase) in fixed and call deposits | 70,292 | (666,721) |
| Net change in related party balances | 17,472 | (481) |
| | <u>79,669</u> | <u>(591,863)</u> |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

32 **SEGMENT INFORMATION ON CASH FLOWS**

| | Shareholders' Fund <u>RM'000</u> | General Insurance Fund <u>RM'000</u> | Life Insurance Fund <u>RM'000</u> | <u>Total</u> <u>RM'000</u> |
|---|--|---|--|-------------------------------|
| <u>2006</u> | | | | |
| Cash flows from: | | | | |
| Operating activities | 101,450 | 11,939 | (1,003) | 112,386 |
| Investing activities | (55,770) | (1,109) | 10,820 | (46,059) |
| Financing activities | (23,005) | - | - | (23,005) |
| | <u>22,675</u> | <u>10,830</u> | <u>9,817</u> | <u>43,322</u> |
| Net increase in cash and cash equivalents | | | | |
| | 22,675 | 10,830 | 9,817 | 43,322 |
| Cash and cash equivalents: | | | | |
| At beginning of financial period | 2,117 | 26,107 | 38,633 | 66,857 |
| At end of financial period | <u>24,792</u> | <u>36,937</u> | <u>48,450</u> | <u>110,179</u> |
| <u>2005</u> | | | | |
| Cash flows from: | | | | |
| Operating activities | 62,291 | (21,459) | (2,888) | 37,944 |
| Investing activities | (417) | (1,943) | (4,313) | (6,673) |
| Financing activities | (62,443) | - | - | (62,443) |
| | <u>(569)</u> | <u>(23,402)</u> | <u>(7,201)</u> | <u>(31,172)</u> |
| Net increase in cash and cash equivalents | | | | |
| | (569) | (23,402) | (7,201) | (31,172) |
| Cash and cash equivalents: | | | | |
| At beginning of financial year | 2,686 | 49,509 | 45,834 | 98,029 |
| At end of financial year | <u>2,117</u> | <u>26,107</u> | <u>38,633</u> | <u>66,857</u> |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

33 SIGNIFICANT RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company other than as disclosed in Note 7, are as follows:

| <u>Related parties</u> | <u>Country of incorporation</u> | <u>Relationship</u> |
|-------------------------------|---------------------------------|-----------------------------|
| MNI Holdings Berhad | Malaysia | Holding company |
| Mayban Fortis Holdings Berhad | Malaysia | Penultimate holding company |
| Malayan Banking Berhad | Malaysia | Ultimate holding company |

In the normal course of business, the Company undertook at agreed terms and prices, various transactions with its ultimate holding company, subsidiaries and other companies deemed related parties by virtue of being subsidiaries and associated companies of Malayan Banking Berhad ("MBB").

During the financial period, related companies in MBB group became related parties to the Company by virtue of MFHB acquisition of MNI Holdings Berhad.

The significant related party transactions during the financial period between the Company and its related parties are set out below:

| | <u>2006</u> RM'000 | <u>2005</u> RM'000 |
|---|-----------------------|-----------------------|
| Reinsurance premium received from a subsidiary company | (8) | (328) |
| Rental received from: | | |
| - Holding company | (108) | (87) |
| - Subsidiary company | (4,083) | (3,352) |
| Contribution income paid to a subsidiary company | - | 582 |
| Claims received from a subsidiary company | 165 | (415) |
| Shared service cost paid to intermediate holding company | 311 | - |
| Administrative fee paid to subsidiary companies | 200 | 131 |
| Management fee received from a subsidiary company | (1,387) | (1,806) |
| Interest income received from related party | (4,137) | - |
| Proceeds received from ultimate holding company for redemption of bonds | 40,000 | - |
| | <u> </u> | <u> </u> |

The Directors are of the opinion that the related party transactions described above were carried out on terms and conditions obtainable in transactions with unrelated parties.

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

34 **FINANCIAL INSTRUMENTS**

The Company's financial risk management policies seek to ensure that adequate financial resources are available for the development of the MFHB Group's businesses whilst managing its various risks. The overall objective is to safeguard the interests of all its stakeholders. Risk management at MFHB is therefore organised both centrally and on a business unit basis. Since risk itself is present at the various risk-taking business units, the Company is responsible for the day-to-day management of risks inherent in its business activities as the first line of defence. The Risk Management Division of MFHB acts as a risk control and coordinating unit whose responsibility includes the setting up of a risk management framework, the formulation and implementation of risk management guidelines and the development of tools and methodologies for the identification, measurement, monitoring, control and pricing of risks. As such, it becomes the second line of defence. The internal auditors of MBB Group, acting as the third line of defence, provide independent assurance of the effectiveness of the risk management approach. These three-pronged strategies are in line with that of MBB Group's risk management approach.

Types of Risk

Risks can arise in all operational areas, functions, processes, and also from external events. Assessing the risk situation of MFHB Group therefore requires a holistic approach. The scope of risk management approach at the MFHB Group are in accordance to the three risk management pillars. The pillars are the Financial Risk, Insurance Risk and Operational Risk.

(i) Insurance Risk

This relates to the risks inherent in the business activities of life and non-life businesses. Such risks include the premium/benefits risk, premium/claims risk, claims/actuarial reserve risk and reinsurance risk. Premium/benefits risk is more common in the life and health insurance, i.e. the risk of having to pay, from a premium that may be fixed for many years at a constant level, benefits that can be affected by intervening trends when they become due. In the case of non-life, it is the premium and claims risk, i.e. the risk of having to pay, from premiums fixed in advance, claims and benefits whose scope is uncertain at the time the premium is fixed.

Special attention is also given to the adequacy of the actuarial reserves or the claims reserve risk. The appointed actuaries will assess the reserving methodology on a regular basis in accordance with the BNM's guidelines. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers, retrocessionaires, cedants and brokers.

(ii) Financial Risk

Financial risks comprise market risks and credit risks. Market risk involves potential losses in the value of invested capital as a result of changes in market prices, i.e. due to fluctuations in interest rates/rates of return, share prices or exchange rates and perhaps to a certain extent property prices. Market risk is more prevalent in the life business. Credit risk arises when a borrower or counterparty is no longer able to pay their debt. Such risks from defaults on receivables may arise from profiles of liabilities supported by mismatch of assets. Attention is also given to the counterparty risk on the bond portfolio.

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(iii) **Operational Risk**

Operational risk is defined as the risk of direct loss resulting from inadequate or failed internal processes, people and systems or from external events. The methodology used to assess, mitigate and control the risks identified are in accordance to the MBB Group operational risk framework.

Monitoring and controlling risks

Having classified all the different types of risks, it is important that these risks are monitored and controlled regularly. The development of consistent methodology for use throughout the entire MFHB Group has become the focal point of interests to the management and Boards of MFHB Group of companies. In essence, these could be described as follows:

(i) **Insurance risk**

Underwriting guidelines and limits have been well established to clearly regulate responsibility and accountability for the whole process of conducting insurance and reinsurance contracts. There it spells out who may accept what risks and up to what amounts. They are regularly monitored for compliance and updated to reflect current requirements. To further control the underwriting risks, the actuarial department will regularly assess the adequacy of the insurance charges and technical provisions.

The non-life business uses reinsurance as a form of risk transfer. The risk of defaults by reinsurers were further reduced by selecting only those reinsurers with reputable securities or those that have been awarded with at least an "A" rating by internationally recognised rating agencies. Additionally, provisions for known and unknown liabilities arising from our commitments are calculated for life and non-life businesses using prudent actuarial methods.

(ii) **Financial risk**

In order to manage financial risks, the Asset-Liability Committee ("ALCO") has been established. The ALCO is responsible for advising the Investment Committee ("IC"), Risk Management Committee ("RMC") and the Board of Directors ("Board") on financial risk management. It is responsible for preparing global investment management guidelines on counterparty and concentration risks in the fixed income investments, equity and property investments taking into account BNM's regulations and market trends. Moreover, Asset-Liability Management ("ALM") studies, based on stress tests of the impact of alternative investment strategies on solvency and revenue, are performed for every investment portfolio separately, taking into account the characteristics of the liabilities and translated into a specific Investment Management Mandate. The global investment management guidelines and the portfolio-specific mandates are submitted to the IC, RMC and the Board for review and approvals. ALCO will then monitor the compliance to the approved mandates.

In managing credit risk, credit limits are imposed where ALCO sets forth the maximum credit exposures the Group is willing to assume over specified periods. They relate to products, conditions of the exposure and other factors

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(iii) Operational risk

An on going process of implementing a comprehensive framework for monitoring and controlling operational risks has been put in place. In the process, operational loss data is being collected using an approach similar to the requirements of Bank for International Settlement Accord II ("Basel II") and in line with MBB Group operational risk framework. Key risk indicators are also compiled for deliberation at the RMC meeting.

In addition, the risk control self assessment scorecards have been developed to ensure risk-taking units have identified and manage its operational risks. A risk communication programme is being carried out with the objective to create risk awareness among all staff of the MFHB Group of possible risks and to inculcate an appropriate risk culture to avoid the common fallacy to equate risk-awareness with being risk-averse.

(a) Exposure to interest rate risk

The following tables provide information about financial assets and financial liabilities, showing the weighted average effective interest rate and the earlier of the contractual repricing or maturity date for each class of interest-bearing financial instrument in the balance sheet as at 30 June 2006.

| 2006 | Non-interest bearing RM'000 | Interest-bearing: Contractual repricing or <u>maturity date (whichever is earlier)</u> | | | Total carrying amount RM'000 | Weighted average effective interest rate % |
|--|--------------------------------|--|------------------------|-----------------------------|---------------------------------|---|
| | | 1 year or less RM'000 | 1 to 5 years RM'000 | More than 5 years RM'000 | | |
| Assets | | | | | | |
| Investments | | | | | | |
| - Malaysian Government Securities | - | 18,629 | 109,593 | 248,480 | 376,702 | 5.10 |
| - Cagamas papers | - | - | 61,025 | 81,776 | 142,801 | 4.67 |
| - Corporate debt securities (Note 34(b)) | - | 193,113 | 635,847 | 1,135,491 | 1,964,451 | 5.16 |
| - Equity securities of corporations | 744,177 | - | - | - | 744,177 | |
| - Other investments | 54,079 | - | - | - | 54,079 | |
| - Fixed and call deposits | - | 962,335 | 305,769 | 18,600 | 1,286,704 | 3.64 |
| | 798,256 | 1,174,077 | 1,112,234 | 1,484,347 | 4,568,914 | |
| Loans | - | 10,761 | 43,914 | 166,850 | 221,525 | 16.1 |
| Other receivables | 131,216 | - | - | - | 131,216 | |
| Cash and bank balances | 110,179 | - | - | - | 110,179 | |
| Financial assets | 1,039,651 | 1,184,838 | 1,156,148 | 1,651,197 | 5,031,834 | |
| Other financial assets | | | | | 167,451 | |
| Total financial assets | | | | | 5,199,285 | |
| Non-financial assets | | | | | 634,860 | |
| Total assets (Page 14) | | | | | 5,834,145 | |

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(a) Exposure to interest rate risk (continued)

| <u>2006 (continued)</u> | Non- interest bearing RM'000 | Interest-bearing: Contractual repricing or maturity date (whichever is earlier) | | | Total carrying amount RM'000 | Weighted average effective interest rate % |
|--|---------------------------------------|---|---------------------------|--------------------------------|---------------------------------------|---|
| | | 1 year or less RM'000 | 1 to 5 years RM'000 | More than 5 years RM'000 | | |
| Liabilities | | | | | | |
| Financial liabilities | 227,008 | - | - | - | 227,008 | |
| Other financial liabilities | | | | | 4,325,072 | |
| Non-financial liabilities | | | | | 296,528 | |
| Total liabilities (Page 14) | | | | | <u>4,848,608</u> | |
| <u>2005</u> | | | | | | |
| Assets | | | | | | |
| Investments | | | | | | |
| - Malaysian Government Securities | - | 34,215 | 134,365 | 229,038 | 397,618 | 4.88 |
| - Cagamas papers | - | - | - | 11,708 | 11,708 | 5.18 |
| - Corporate debt securities (Note 34(b)) | - | 68,378 | 599,768 | 1,073,577 | 1,741,723 | 6.25 |
| - Equity securities of corporations | 888,804 | - | - | - | 888,804 | - |
| - Other investments | 43,811 | - | - | - | 43,811 | - |
| - Fixed and call deposits | - | 1,236,883 | 102,517 | 17,596 | 1,356,996 | 2.86 |
| | <u>932,615</u> | <u>1,339,476</u> | <u>836,650</u> | <u>1,331,919</u> | <u>4,440,660</u> | |
| Loans | - | 26,699 | 4,021 | 163,636 | 194,356 | 7.44 |
| Other receivables | 101,628 | - | - | - | 101,628 | - |
| Cash and bank balances | 66,857 | - | - | - | 66,857 | - |
| Financial assets | <u>1,101,100</u> | <u>1,366,175</u> | <u>840,671</u> | <u>1,495,555</u> | <u>4,803,501</u> | |
| Other financial assets | | | | | 138,769 | |
| Total financial assets | | | | | <u>4,942,270</u> | |
| Non-financial assets | | | | | 581,422 | |
| Total assets (Page 14) | | | | | <u>5,523,692</u> | |

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(a) Exposure to interest rate risk (continued)

| <u>2005</u> | Non- interest bearing RM'000 | Interest-bearing: Contractual repricing or maturity date (whichever is earlier) | | | Total carrying amount RM'000 | Weighted average effective interest rate % |
|-----------------------------|---------------------------------------|---|---------------------------|--------------------------------|---------------------------------------|---|
| | | 1 year or less RM'000 | 1 to 5 years RM'000 | More than 5 years RM'000 | | |
| Liabilities | | | | | | |
| Financial liabilities | 187,601 | - | - | - | 187,601 | - |
| Other financial liabilities | | | | | 3,824,530 | |
| Non-financial liabilities | | | | | 595,722 | |
| Total liabilities (Page 12) | | | | | <u>4,607,853</u> | |

(b) Exposure to credit risk

| | <u>2006</u> RM'000 | <u>2005</u> RM'000 |
|---|-----------------------|-----------------------|
| Rating of corporate debt securities based on carrying values: | | |
| Government Guaranteed | 388,102 | 251,158 |
| AAA | 608,075 | 433,810 |
| AA | 532,036 | 434,760 |
| A | 305,855 | 569,983 |
| BBB | 40,090 | 40,299 |
| BB | 78,580 | - |
| No rating | 11,713 | 11,713 |
| | <u>1,964,451</u> | <u>1,741,723</u> |

The rating categories are based on the gradings of the Ratings Agency of Malaysia ("RAM").

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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

34 **FINANCIAL INSTRUMENTS (CONTINUED)**

(c) Estimated fair values

The carrying values of financial assets and liabilities of the Company as at 30 June 2006 approximate their fair values, except for the following:

| | <u>Carrying value</u> RM'000 | <u>Fair value</u> RM'000 |
|--|-------------------------------------|---------------------------------|
| <u>2006</u> | | |
| Investments: | | |
| - Malaysian Government Securities | 376,702 | 380,661 |
| - Cagamas papers | 142,801 | 139,550 |
| - Corporate debt securities | 1,964,451 | 1,978,095 |
| - Quoted equity securities of corporations | 641,003 | 670,403 |
| - Other investments | 54,079 | 62,353 |
| | <u>3,179,036</u> | <u>3,223,035</u> |
| <u>2005</u> | | |
| Investments: | | |
| - Malaysian Government Securities | 397,617 | 408,543 |
| - Cagamas papers | 11,708 | 11,997 |
| - Corporate debt securities | 1,736,513 | 1,780,481 |
| - Quoted equity securities of corporations | 806,586 | 832,830 |
| - Other investments | 43,811 | 50,864 |
| | <u>2,996,235</u> | <u>3,084,715</u> |

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and Cash Equivalents and Other Receivables/Payables

The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

In the opinion of the directors, no disclosure of fair value is made for inter-company balances as it is not practical to determine their fair values with sufficient reliability given that these balances have no fixed terms of repayment.

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MALAYSIA NATIONAL INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2006 (CONTINUED)

34 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Estimated fair values (continued)

(ii) Investments

The fair values of quoted investments are determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

The fair values of Cagamas bonds, Government securities and bonds, are indicative values obtained from the secondary market.

The fair values of quoted units in unit trust funds are determined by reference to market quotations by the manager of the funds.

35 COMPARATIVES

The comparative figures have been audited by a firm of chartered accountants other than Ernst & Young.

36 CURRENCY

All amounts are stated in Ringgit Malaysia, unless otherwise stated.