



MAYBAN GENERAL ASSURANCE BERHAD (4157-A)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
30 June 2004

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

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MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 June 2004.

PRINCIPAL ACTIVITY

The principal activity of the Company is the underwriting of all classes of general insurance business.

There has been no significant change in the nature of this principal activity during the financial year.

RESULTS

	RM'000
Net profit for the year	<u>54,599</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statement of changes in equity.

In the opinion of the directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividend paid by the Company since 30 June 2003 was as follows:

	RM'000
In respect of the financial year ended 30 June 2004:	
Special tax exempt interim dividend of 21%, paid on 29 June 2004	<u>37,416</u>

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

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Tan Sri Mohamed Basir bin Ahmad (Chairman)

Damis Jacobus Ziengs (Vice Chairman)

Kasim bin Zakaria

Sulaiman bin Salleh

Tee Keng Sing

Haji Mohd. Hashir bin Haji Abdullah

Clifford Robin Huke

Hooi Lai Hoong

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.

(a) 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 ("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.

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.

CORPORATE GOVERNANCE (CONT'D)

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 6 times during the financial year and the attendance of the directors was as follows:

Name	Number of Board meetings	
	Attended	%
Tan Sri Mohamed Basir bin Ahmad (Chairman)	6/6	100
Damis Jacobus Ziengs (Vice Chairman)	6/6	100
Kasim bin Zakaria	6/6	100
Sulaiman bin Salleh	6/6	100
Tee Keng Sing	5/6	83
Haji Mohd. Hashir bin Haji Abdullah	6/6	100
Clifford Robin Huke	5/6	83
Hooi Lai Hoong	5/6	83

(b) 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.

(c) Corporate Independence

All material related party transactions have been disclosed in Note 24 to the financial statements.

(d) 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 Audit Committee, and its findings and recommendations are communicated to senior management and all levels of staff concerned.

CORPORATE GOVERNANCE (CONT'D)

(d) Internal Controls and Audit (Cont'd)

The composition of the AC is as follows:

Haji Mohd. Hashir bin Haji Abdullah (Chairman)
Independent Non-Executive Director

Damis Jacobus Ziengs
Non-Independent Non-Executive Director

Sulaiman bin Salleh
Independent Non-Executive Director

The AC met 5 times during the financial year.

(e) 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 established the RMC at the holding company's level with the consent of 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 units, risk control and coordinating unit 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.

CORPORATE GOVERNANCE (CONT'D)

(e) Risk Management (Cont'd)

The composition of the RMC is as follows:

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

Jozef De Mey
Non-Independent Non-Executive Director

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

The RMC was established on 10 November 2003 and met 3 times during the financial year.

(f) Nomination and Remuneration Committees

The Board also takes responsibility in establishing the Nomination and Remuneration Committees. The primary objective of the Nomination Committee 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, 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.

The Company will continue to use the existing Nomination Committee and Management Development and Compensation Committee of the Maybank Group as part of its governance structure.

CORPORATE GOVERNANCE (CONT'D)

(f) Nomination and Remuneration Committees (Cont'd)

The composition of the Nomination Committee is as follows:

Raja Tan Sri Muhammad Alias bin Raja Muhd. Ali (Chairman)
Independent Non-Executive Director

Mohammad bin Abdullah
Independent Non-Executive Director

Haji Mohd. Hashir bin Haji Abdullah
Independent Non-Executive Director

Datuk Amirsham A. Aziz
Non-Independent Executive Director

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

The Nomination Committee met 5 times during the financial year.

The composition of the Remuneration Committee 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 Abdul Rahman bin Mohd. Ramli
Non-Independent Non-Executive Director

Teh Soon Poh
Independent Non-Executive Director

The Remuneration Committee met 13 times during the financial year.

(g) Public Accountability

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

CORPORATE GOVERNANCE (CONT'D)**(h) 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 Audit Committee of the Board assists by scrutinising the information to be disclosed, to ensure accuracy, adequacy and completeness.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of 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 Maybank Group Employee Share Option Scheme ("ESOS") as disclosed in Note 27 to the financial statements.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors, or the fixed salary of a full time employee of the Company as disclosed in Note 15 to the financial statements) 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, except as disclosed in Note 24 to the financial statements.

DIRECTORS' INTERESTS

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

	Number of ordinary shares of RM1 each			30 June 2004
	1 July 2003	Bought	Sold	
The Company				
Tee Keng Sing				
- direct	45,000	-	-	45,000
- indirect	4,860,000	-	-	4,860,000
Ultimate holding company:				
Malayan Banking Berhad				
Tan Sri Mohamed Basir				
bin Ahmad	18,000	-	-	18,000
Kasim bin Zakaria	24,700	-	-	24,700
Sulaiman bin Salleh	3,000	-	-	3,000
Hooi Lai Hoong	181,400	-	-	181,400

DIRECTORS' INTERESTS (CONT'D)

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

OTHER STATUTORY INFORMATION

- (a) Before the balance sheet and income statement of the Company were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would:
 - (i) require any amount to be written off as bad debts or render the amount of the provision for doubtful debts inadequate to any substantial extent; and
 - (ii) render the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.

OTHER STATUTORY INFORMATION (CONT'D)

(f) In the opinion of the directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e) and (f), contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

(g) Before the balance sheet and income statement 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.

SIGNIFICANT AND SUBSEQUENT EVENT

The significant and subsequent event during the financial year is disclosed in Note 27 to the financial statements.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors

Mohamed Basir bin Ahmad

Kasim bin Zakaria

Kuala Lumpur, Malaysia
17 August 2004

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Mohamed Basir bin Ahmad and Kasim bin Zakaria, being two of the directors of Mayban General Assurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 12 to 54 are drawn up in accordance with applicable 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 2004 and of its results and its cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors

Mohamed Basir bin Ahmad

Kasim bin Zakaria

Kuala Lumpur, Malaysia
17 August 2004

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

I, Zainal Abidin bin Mohd. Noor, being the officer primarily responsible for the financial management of Mayban General Assurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 12 to 54 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.

Subscribed and solemnly declared by
the abovenamed Zainal Abidin bin Mohd. Noor
at Kuala Lumpur in Wilayah Persekutuan
on 17 August 2004

Zainal Abidin bin Mohd. Noor

Before me,

Commissioner for Oaths

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**REPORT OF THE AUDITORS TO THE MEMBERS OF
MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)**

We have audited the accompanying financial statements set out on pages 12 to 54. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 2004 and of its results and its cash flows for the year 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

Pushpanathan a/l S.A. Kanagarayar
No. 1056/03/05 (J/PH)
Partner

Kuala Lumpur, Malaysia
17 August 2004

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 30 JUNE 2004

	Note	2004 RM'000	2003 RM'000
ASSETS			
Property, plant and equipment	3	70,714	77,802
Intangible asset	4	174,949	185,606
Investments	5	530,342	492,903
Staff loans	6	6,434	6,642
Receivables	7	55,127	63,427
Cash and bank balances		9,950	9,622
TOTAL ASSETS		<u>847,516</u>	<u>836,002</u>
LIABILITIES			
Provision for outstanding claims	8	193,866	200,830
Payables	9	51,075	52,821
Tax payable		2,106	-
Deferred taxation	10	3,517	2,183
		<u>250,564</u>	<u>255,834</u>
PROVISION FOR INSURANCE LIABILITIES			
Unearned premium reserves	11	<u>90,042</u>	<u>91,808</u>
SHAREHOLDERS' EQUITY			
Share capital	12	178,171	178,171
Reserves		<u>328,739</u>	<u>310,189</u>
		<u>506,910</u>	<u>488,360</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>847,516</u>	<u>836,002</u>

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

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2004

	Note	← Non-distributable →			Distributable		Total RM'000
		Share capital RM'000	Share premium RM'000	Investment revaluation reserve RM'000	Currency translation reserve RM'000	Retained profits RM'000	
At 1 July 2002		178,171	249,929	1,089	12,790	43,212	485,191
Currency translation differences representing net losses not recognised in the income statement		-	-	-	(1,495)	-	(1,495)
Net profit for the year		-	-	-	-	40,418	40,418
Transfer of reserve in respect of shares disposed		-	-	(1,089)	-	1,089	-
Goodwill written off	4	-	-	-	-	(10,097)	(10,097)
Dividends	20	-	-	-	-	(25,657)	(25,657)
At 30 June 2003		178,171	249,929	-	11,295	48,965	488,360
At 1 July 2003		178,171	249,929	-	11,295	48,965	488,360
Currency translation differences representing net gains not recognised in the income statement		-	-	-	1,367	-	1,367
Net profit for the year		-	-	-	-	54,599	54,599
Dividends	20	-	-	-	-	(37,416)	(37,416)
At 30 June 2004		178,171	249,929	-	12,662	66,148	506,910

The accompanying notes from an integral part of the financial statements.

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 RM'000	2003 RM'000
Operating revenue	13	<u>310,044</u>	<u>320,184</u>
Surplus transferred from revenue account		84,417	71,022
Management expenses	15	(576)	(576)
Investment income	16	1,412	1,345
Other expenditure (net)	17	<u>(10,814)</u>	<u>(10,409)</u>
Profit before taxation		74,439	61,382
Taxation	18	<u>(19,840)</u>	<u>(20,964)</u>
Net profit for the year		<u>54,599</u>	<u>40,418</u>
Earnings per share - Basic (sen)	19	<u>30.6</u>	<u>22.7</u>
Net dividends per share (sen)	20	<u>21.0</u>	<u>14.4</u>

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

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2004

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous ("Misc.")		Total	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Gross premiums		85,327	88,397	64,097	78,731	7,349	13,546	128,356	114,833	285,129	295,507
Reinsurance		(21,231)	(30,058)	(4,273)	(7,098)	(3,057)	(10,618)	(29,019)	(34,783)	(57,580)	(82,557)
Net premiums		64,096	58,339	59,824	71,633	4,292	2,928	99,337	80,050	227,549	212,950
(Increase)/decrease in unearned premium reserves	11	(3,056)	3,021	5,284	4,296	(109)	1,467	267	(4,442)	2,386	4,342
Earned premium		61,040	61,360	65,108	75,929	4,183	4,395	99,604	75,608	229,935	217,292
Net claims incurred	14	(11,553)	(8,631)	(26,286)	(35,046)	(786)	(2,586)	(49,960)	(29,965)	(88,585)	(76,228)
Net commission		(8,944)	(7,284)	(6,901)	(8,072)	(829)	(190)	(16,323)	(11,510)	(32,997)	(27,056)
Underwriting surplus before management expenses		40,543	45,445	31,921	32,811	2,568	1,619	33,321	34,133	108,353	114,008
Management expenses	15									(57,000)	(70,121)
Underwriting surplus										51,353	43,887
Investment income	16									23,503	23,332
Other income (net)	17									9,561	3,803
Transfer to income statement										84,417	71,022

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

MAYBAN GENERAL ASSURANCE BERHAD
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CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	74,439	61,382
Adjustment for:		
Amortisation of goodwill	10,656	10,656
Decrease in unearned premium reserves	(2,386)	(4,342)
(Write-back of)/provision for doubtful debts	(4,252)	8,919
Interest income	(17,514)	(18,215)
Interest expense	67	159
Gross dividend income	(4,328)	(4,004)
Net gain on disposal of investments	(10,048)	(6,331)
Net (write-back of)/provision for diminution in value of investments	(849)	932
Accretion of discounts net of amortisation of premiums	(690)	(70)
Impairment on investment properties	-	289
Impairment on property, plant and equipment	-	74
Depreciation of property, plant and equipment	7,968	7,513
Gain on disposal of property, plant and equipment	(40)	(565)
Reclassification of Work-in-Progress	9	-
Property, plant and equipment written off	77	361
Profit from operations before changes in operating assets and liabilities	53,109	56,758
Net decrease/(increase) in loans	208	(1,389)
Purchase of investments	(166,289)	(310,695)
Proceeds from disposal/maturity of investments	143,573	292,814
Net (increase)/decrease in fixed and call deposits	(809)	64,257
Decrease/(increase) in amounts due from insureds, agents, brokers, co-insurers and reinsurers	9,648	(475)
(Increase)/decrease in other receivables	(3,069)	7,348
Decrease in outstanding claims	(7,670)	(35,253)
Increase/(decrease) in amounts due to insureds, agents, brokers, co-insurers and reinsurers	9,461	(13,138)
(Decrease)/increase in other payables	(11,393)	1,062
Foreign exchange fluctuation	(1)	(855)
Cash generated from operations	26,768	60,434
Interest received	17,527	17,110
Interest paid	(67)	(159)
Net dividend received	3,538	3,151
Net dividend paid	(37,416)	(25,657)
Net tax paid	(9,307)	(14,586)
Net cash generated from operating activities	1,043	40,293

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

	2004	2003
	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash used in acquisition of business (Note a)	-	(40,043)
Purchase of property, plant and equipment	(924)	(1,540)
Proceeds from disposal of property, plant and equipment	40	1,074
Net cash used in investing activities	<u>(884)</u>	<u>(40,509)</u>
NET INCREASE/(DECREASE) IN CASH AND BANK		
BALANCES	159	(216)
EFFECT OF EXCHANGE RATE CHANGES	169	(2)
CASH AND BANK BALANCES AT BEGINNING OF YEAR	9,622	9,840
CASH AND BANK BALANCES AT END OF YEAR	<u>9,950</u>	<u>9,622</u>

a) Acquisition of business

Investments	36,744
Receivables	3,942
Cash and bank balances	1,535
Property, plant and equipment	150
Provision for outstanding claims	(9,412)
Other payables	(866)
Unearned premium reserves	(612)
Net assets acquired	<u>31,481</u>
Goodwill on consolidation	10,097
Cost of acquisition	<u>41,578</u>
Less: Cash and bank balances acquired	(1,535)
Net cash used in acquisition of business	<u>40,043</u>

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

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

1. CORPORATE INFORMATION

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The principal place of business of the Company is located at Mayban Assurance Tower, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur.

The holding and ultimate holding companies of the Company are Mayban Fortis Holdings Berhad and Malayan Banking Berhad ("MBB") respectively, both of which are incorporated in Malaysia. Malayan Banking Berhad is a licensed commercial bank listed on the Main Board of Bursa Malaysia Securities Berhad.

The number of employees in the Company at the end of the financial year was 337 (2003: 376).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 17 August 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Company have been prepared under the historical cost convention and comply with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The assets and liabilities relate to both the general insurance business and shareholders' fund.

During the financial year ended 30 June 2004, the Company adopted Malaysian Accounting Standards Board ("MASB") Standard No. 29: Employee Benefits for the first time.

The adoption of MASB 29 has not given rise to any adjustments to the opening balances of retained profits of the prior and current years or to changes in comparatives.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Intangible Asset

Intangible asset which relates to the excess of the purchase price over the fair value of assets and liabilities acquired is included in the balance sheet as goodwill arising on acquisition and is amortised on a straight-line basis over a period of 20 years. Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g). In the event of impairment of goodwill in the year of acquisition, it is written off to retained profits immediately.

(c) 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.

(i) Premium Income

Premium is recognised in a financial year in respect of risks assumed during that particular financial year. Inward treaty reinsurance premium is recognised on the basis of periodic advices received from ceding insurers.

(ii) Unearned Premium Reserves

Unearned Premium Reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of policies at the end of the financial year. 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 the limits specified by BNM as follows:

Motor and bonds	10%
Fire, engineering, aviation and 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%
Other classes	25%

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Underwriting Results (Cont'd)

(ii) Unearned Premium Reserves (Cont'd)

- 1/8th method for all classes of overseas inward treaty business with a deduction of 20% for commissions
- Non-annual policies are time apportioned over the period of the risks

(iii) 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 obligations 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.

(iv) Acquisition Costs

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

(d) 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.

(i) Interest Income

Interest is recognised on a time proportion basis that reflects the effective yield on the asset except for interest on loans which are considered non-performing, i.e., when repayments are in arrears for more than three months, in which case, recognition of such interest is suspended with retrospective adjustment made to the date of first default. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

(ii) Dividend Income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Other Revenue Recognition (Cont'd)

(iii) Rental Income

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

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g).

Freehold land and renovation and building-in-progress are not depreciated. Leasehold land is amortised over the period of the respective leases. Buildings are amortised over the shorter period of 50 years or the period of the respective leases.

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

Furniture, fittings, equipment and renovations	20%
Computers and peripherals	20% - 25%
Electrical and security equipment	10%
Motor vehicles	25%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement/revenue account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Investment Properties

Investment properties consist of investments in land and buildings that are not substantially occupied for use by, or in the operations of the Company.

Investment properties are treated as long-term investments and are stated at cost and include related and incidental expenditure incurred less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g). Investment properties are not depreciated.

Certain investment properties acquired prior to 1 February 1996 are stated at their net book values as at that date of RM608,000 with subsequent additions stated at cost, less impairment losses. The original costs of these properties were RM793,000.

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

(g) 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 net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement/revenue account immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(h) Employee Benefits

(i) Short-term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee Benefits (Cont'd)

(ii) Defined Contribution Plan

As required by law, the Company and its overseas branch make contributions to the Employees Provident Fund ("EPF") and the Singapore Central Provident Fund ("CPF") respectively. Such contributions are recognised as an expense in the income statement/revenue account as incurred.

Prior to the adoption of MASB 29: Employee Benefits on 1 July 2003, no liability was recognised for the obligations in respect of short-term benefits in the form of accumulating compensated absences.

(i) Income Tax

Income tax on the profit or loss for the year comprises of current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit 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 profit 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 goodwill or negative goodwill or 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/revenue account, 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, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Foreign Currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the dates of the transaction. 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 account.

Foreign currency assets and liabilities of an overseas branch are translated into Ringgit Malaysia at rates of exchange ruling at the balance sheet date and the results for the financial year are translated at average rates. Exchange differences arising from the translation of the results at average rates and assets and liabilities at rates ruling at the balance sheet date and the restatement of the opening net investment in the overseas branch at rates of exchange ruling at the balance sheet date are dealt with through the currency translation reserve.

The principal exchange rates for each respective unit of foreign currency ruling at the balance sheet date are as follows:

	2004	2003
	RM	RM
United States Dollars	3.80	3.80
Singapore Dollars	2.21	2.16

(k) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash and bank balances, excluding fixed and call deposits. The cash flow statement has been prepared using the indirect method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) 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 recognised 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 are excluded from the scope of MASB Standard 24 - Financial Instruments: Disclosure and Presentation.

(i) Malaysian Government Securities and Other Approved Investments

Malaysian Government Securities and other approved investments as specified by Bank Negara Malaysia 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.

(ii) Government Guaranteed Bonds and Unquoted Corporate Bonds

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

(iii) Quoted Investments

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 of a particular investment is not regarded as temporary, provision is made against the value of that investment.

(iv) Unquoted Investments

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) Financial Instruments (Cont'd)

(v) 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 including agents, brokers and reinsurers balances which remain outstanding for more than six months from the date on which they become receivable.

(vi) Payables

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

(vii) Equity Instruments

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.

3. PROPERTY, PLANT AND EQUIPMENT

	Properties*	Furniture, fittings, equipment and renovations	Computers and peripherals	Electrical and security equipment	Motor vehicles	Renovation & building- in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost							
At 1 July 2003	61,848	25,659	19,726	8,802	966	21	117,022
Additions	-	90	347	1	-	486	924
Disposals	-	(24)	-	-	(163)	(9)	(196)
Write-offs	-	(1,832)	(10)	(100)	-	-	(1,942)
Reclassification	-	12	-	-	-	(12)	-
Translation differences	64	32	16	-	6	-	118
At 30 June 2004	61,912	23,937	20,079	8,703	809	486	115,926
Accumulated Depreciation and Impairment Losses							
At 1 July 2003							
Accumulated depreciation	4,595	15,470	15,294	2,985	802	-	39,146
Impairment losses	74	-	-	-	-	-	74
	4,669	15,470	15,294	2,985	802	-	39,220
Charge for the year	1,232	3,766	2,055	782	133	-	7,968
Disposals	-	(24)	-	-	(163)	-	(187)
Write-offs	-	(1,776)	(10)	(79)	-	-	(1,865)
Translation differences	34	29	9	-	4	-	76
At 30 June 2004	5,935	17,465	17,348	3,688	776	-	45,212
Net Book Value							
At 30 June 2004	55,977	6,472	2,731	5,015	33	486	70,714
At 30 June 2003	57,179	10,189	4,432	5,817	164	21	77,802
Details at 1 July 2002							
Cost	64,206	26,833	19,371	8,831	2,852	253	122,346
Accumulated depreciation	3,552	12,983	13,780	2,222	1,991	-	34,528
Depreciation charge for 2003							
	1,243	3,633	1,639	782	216	-	7,513

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

* Properties consist of:

	Freehold land RM'000	Buildings on freehold land RM'000	Leasehold land 50 years or more RM'000	Buildings on leasehold land 50 years or more RM'000	Total RM'000
Cost					
At 1 July 2003	294	239	9,150	52,165	61,848
Translation differences	-	-	-	64	64
At 30 June 2004	294	239	9,150	52,229	61,912
Accumulated Depreciation and Impairment Losses					
At 1 July 2003					
Accumulated depreciation	-	65	507	4,023	4,595
Impairment losses	-	-	-	74	74
	-	65	507	4,097	4,669
Charge for the year	-	5	183	1,044	1,232
Translation differences	-	-	-	34	34
At 30 June 2004	-	70	690	5,175	5,935
Net Book Value					
At 30 June 2004	294	169	8,460	47,054	55,977
At 30 June 2003	294	174	8,643	48,068	57,179
Details at 1 July 2002					
Cost	775	779	9,736	52,916	64,206
Accumulated depreciation	-	180	351	3,021	3,552
Depreciation charge for 2003	-	10	186	1,047	1,243

Included in the property, plant and equipment of the Company are the costs of fully depreciated assets which are still in use amounting to RM16,776,716 (2003: RM17,436,000).

4. INTANGIBLE ASSETS

	2004	2003
	RM'000	RM'000
Goodwill arising from acquisition of business	211,360	211,360
Acquisition during the year	-	10,097
	<u>211,360</u>	<u>221,457</u>
Accumulated amortisation	(36,411)	(25,754)
Impairment losses written off to reserves	-	(10,097)
	<u>174,949</u>	<u>185,606</u>

5. INVESTMENTS

	2004		2003	
	Cost	Market/ indicative value*	Cost	Market/ indicative value*
	RM'000	RM'000	RM'000	RM'000
Investment properties:				
Freehold land and buildings	18,390		18,390	
Impairment losses	(279)		(279)	
	<u>18,111</u>	22,037	<u>18,111</u>	22,037
Leasehold land and buildings	1,781		1,781	
Impairment losses	(10)		(10)	
	<u>1,771</u>	2,160	<u>1,771</u>	2,160
	<u>19,882</u>	<u>24,197</u>	<u>19,882</u>	<u>24,197</u>
Malaysian Government Securities ("MGS")	5,099		9,241	
Amortisation of premiums	(236)		(283)	
	<u>4,863</u>	4,847	<u>8,958</u>	9,079
Government Investment Issues ("GII")	8,388		-	
Accretion of discounts	288		-	
	<u>8,676</u>	8,668*	<u>-</u>	-
Cagamas bonds	25,875		15,875	
Amortisation of premiums	(32)		(13)	
	<u>25,843</u>	25,847*	<u>15,862</u>	15,865*
Singapore Government Securities ("SGS")	15,250		12,072	
Net amortisation of premiums	(84)		(51)	
Provision for diminution in value	(154)		-	
	<u>15,012</u>	15,012	<u>12,021</u>	12,568

5. INVESTMENTS (CONT'D)

	2004		2003	
	Cost	Market/ indicative value*	Cost	Market/ indicative value*
	RM'000	RM'000	RM'000	RM'000
Malaysian Government guaranteed bonds	34,292		26,182	
Net amortisation of premiums	111		(68)	
	<u>34,403</u>	<u>34,388*</u>	<u>26,114</u>	<u>26,142*</u>
Malaysian Government guaranteed loans	-	-	270	272*
Negotiable Certificates of Deposit ("NCD")	36,438		63,500	
Amortisation of premiums	(678)		(429)	
	<u>35,760</u>	<u>36,177*</u>	<u>63,071</u>	<u>64,522*</u>
Quoted in Malaysia:				
Bonds/loan stocks of corporations	37		93	
Provision for diminution in value	-		(8)	
	<u>37</u>	<u>28</u>	<u>85</u>	<u>64</u>
Shares and warrants of corporations	42,200		38,237	
Provision for diminution in value	(691)		(1,353)	
	<u>41,509</u>	<u>50,068</u>	<u>36,884</u>	<u>50,839</u>
Unit and property trusts	7,957		7,957	
Provision for diminution in value	(3,353)		(3,448)	
	<u>4,604</u>	<u>4,605</u>	<u>4,509</u>	<u>4,509</u>

5. INVESTMENTS (CONT'D)

	2004		2003	
	Cost	Market/ indicative value*	Cost	Market/ indicative value*
	RM'000	RM'000	RM'000	RM'000
Quoted outside Malaysia:				
Bonds/loan stocks of corporations	10,948		12,983	
Net amortisation of premiums	(64)		(66)	
Provision for diminution in value	(28)		-	
	<u>10,856</u>	<u>10,856</u>	<u>12,917</u>	<u>13,161</u>
Shares and warrants of corporations	16,790		19,516	
Provision for diminution in value	-		(252)	
	<u>16,790</u>	<u>19,193</u>	<u>19,264</u>	<u>19,266</u>
			2004	2003
			Cost	Cost
			RM'000	RM'000
Unquoted in Malaysia:				
Bonds/loan stocks of corporations			136,751	102,817
Net accretion of discounts			1,578	1,034
			<u>138,329</u>	<u>103,851</u>
Shares and warrants of corporations			524	760
Provision for diminution in value			(234)	(219)
			<u>290</u>	<u>541</u>
Corporate loans			<u>7,500</u>	<u>5,000</u>

5. INVESTMENTS (CONT'D)

	2004	2003
	Cost	Cost
	RM'000	RM'000
Unquoted outside Malaysia:		
Bonds/loan stocks of corporations	5,110	4,477
Provision for diminution in value	(673)	(381)
	<u>4,437</u>	<u>4,096</u>
Shares and warrants of corporations	65	65
Provision for diminution in value	(65)	(65)
	<u>-</u>	<u>-</u>
Fixed and call deposits with:		
Licensed banks	83,925	64,187
Licensed finance companies	4,869	6,978
Other financial institutions **	72,757	88,413
	<u>161,551</u>	<u>159,578</u>
Total investments	<u>530,342</u>	<u>492,903</u>

* indicative values are obtained from the secondary market

** other financial institutions comprises of discount houses

5. INVESTMENTS (CONT'D)

- (i) Maturity structure of investments, at cost (excluding investment properties, equity investments, warrants, unit and property trusts)

	< 1 year	1 to < 3 years	3 to 5 years	> 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2004					
MGS	222	1,576	3,301	-	5,099
GII	-	-	8,388	-	8,388
Cagamas bonds	860	-	25,015	-	25,875
SGS	-	1,780	5,160	8,310	15,250
Malaysian					
Government guaranteed bonds	-	20,066	8,110	6,116	34,292
NCD	-	36,438	-	-	36,438
Quoted bonds/loan stocks of corporations:					
In Malaysia	-	37	-	-	37
Outside Malaysia	-	4,235	2,712	4,001	10,948
Unquoted bonds/loan stocks of corporations:					
In Malaysia	15,051	15,067	27,084	79,549	136,751
Outside Malaysia	1,656	2,351	-	1,103	5,110
Corporate loans	-	-	-	7,500	7,500
Fixed and call deposits	161,551	-	-	-	161,551
	179,340	81,550	79,770	106,579	447,239

5. INVESTMENTS (CONT'D)

	< 1 year	1 to	3 to 5 years	> 5 years	Total
	RM'000	< 3 years	RM'000	RM'000	RM'000
		RM'000			
2003					
MGS	4,142	221	3,368	1,510	9,241
Cagamas bonds	-	860	15,015	-	15,875
SGS	1,116	2,078	967	7,911	12,072
Malaysian Government guaranteed bonds	-	-	20,066	6,116	26,182
Malaysian Government guaranteed loans	270	-	-	-	270
NCD	-	-	36,439	27,061	63,500
Quoted bonds/loan stocks of corporations:					
In Malaysia	93	-	-	-	93
Outside Malaysia	2,158	2,838	3,861	4,126	12,983
Unquoted bonds/ loan stocks of corporations:					
In Malaysia	-	25,155	14,639	63,023	102,817
Outside Malaysia	2,158	2,319	-	-	4,477
Corporate loans	-	-	-	5,000	5,000
Fixed and call deposits	159,350	228	-	-	159,578
	169,287	33,699	94,355	114,747	412,088

5. INVESTMENTS (CONT'D)

(ii) The weighted average rates of returns of investments at the balance sheet date were as follows:

	2004	2003
	%	%
	per annum	per annum
MGS	3.68	3.38
GII	3.82	-
Cagamas bonds	3.47	3.47
SGS	2.97	2.15
Malaysian Government guaranteed bonds	3.89	3.68
Malaysian Government guaranteed loans	-	7.75
Quoted bonds/loan stocks of corporations:		
In Malaysia	4.00	4.00
Outside Malaysia	2.99	2.60
Unquoted bonds/loan stocks of corporations:		
In Malaysia	6.33	6.80
Outside Malaysia	1.78	5.42
NCD	3.99	4.52
Corporate loans	7.48	7.35
Fixed and call deposits with:		
Licensed banks	1.16	1.32
Licensed financial companies	2.84	2.75
Other financial institutions	2.68	2.75

(iii) Fixed deposits amounting to RM13,718,989 (2003: RM13,594,296) were pledged to the ultimate holding company for bank guarantee facilities.

6. STAFF LOANS

	2004	2003
	RM'000	RM'000
Secured:		
Receivable within 12 months	816	544
Receivable after 12 months	5,592	6,063
	<u>6,408</u>	<u>6,607</u>
Unsecured:		
Receivable within 12 months	12	10
Receivable after 12 months	14	25
	<u>26</u>	<u>35</u>
	<u>6,434</u>	<u>6,642</u>

The weighted average effective interest rate during the year for staff loans was 3.81% (2003: 3.55%) per annum on the basis of monthly rest.

7. RECEIVABLES

	2004	2003
	RM'000	RM'000
Trade receivables:		
Outstanding premiums including agents, brokers and co-insurers balances	31,419	31,820
Provision for doubtful debts	(5,088)	(10,986)
	<u>26,331</u>	<u>20,834</u>
Amount due from reinsurers and ceding companies	33,217	53,600
Provision for doubtful debts	(23,549)	(33,468)
	<u>9,668</u>	<u>20,132</u>
Other receivables:		
Other receivables, deposits and prepayments	11,177	8,836
Income due and accrued	4,730	4,088
Tax recoverable	3,221	9,537
	<u>19,128</u>	<u>22,461</u>
	<u>55,127</u>	<u>63,427</u>

8. PROVISION FOR OUTSTANDING CLAIMS

	2004	2003
	RM'000	RM'000
Provision for outstanding claims	612,159	602,026
Recoverable from reinsurers	(418,293)	(401,196)
Net outstanding claims	<u>193,866</u>	<u>200,830</u>

9. PAYABLES

	2004	2003
	RM'000	RM'000
Trade payables:		
Amount due to reinsurers	18,540	13,487
Amount due to agents, brokers, co-insurers and insureds	9,150	4,599
	<u>27,690</u>	<u>18,086</u>
Other payables:		
Due to holding company	2,960	6,817
Sundry payables	20,425	27,918
	<u>23,385</u>	<u>34,735</u>
	<u>51,075</u>	<u>52,821</u>

10. DEFERRED TAXATION

	2004	2003
	RM'000	RM'000
At beginning of year	2,183	3,522
Recognised in the income statement (Note 18)	1,302	(1,322)
Exchange differences	(12)	(17)
Effect of reduction in foreign income tax rate	44	-
At end of year	<u>3,517</u>	<u>2,183</u>

Presented after appropriate offsetting as follows:

	2004	2003
	RM'000	RM'000
Deferred tax liabilities	6,274	5,728
Deferred tax assets	(2,757)	(3,545)
	<u>3,517</u>	<u>2,183</u>

10. DEFERRED TAXATION (CONT'D)

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

2004**Deferred Tax Liabilities**

	Accelerated capital allowances RM'000	Others RM'000	Total RM'000
At 1 July 2003	5,693	35	5,728
Recognised in the income statement	345	223	568
Exchange differences	8	(1)	7
Effect of reduction in foreign income tax rate	(32)	3	(29)
At 30 June 2004	6,014	260	6,274

Deferred Tax Assets

	Provision for diminution in value of investments RM'000	Provision for doubtful debts RM'000	Provision for bonus RM'000	Others RM'000	Total RM'000
At 1 July 2003	(1,585)	(931)	(863)	(166)	(3,545)
Recognised in the income statement	387	(30)	178	199	734
Exchange differences	-	(23)	-	4	(19)
Effect of reduction in foreign income tax rate	-	86	-	(13)	73
At 30 June 2004	(1,198)	(898)	(685)	24	(2,757)

2003**Deferred Tax Liabilities**

	Accelerated capital allowances RM'000	Receivables RM'000	Others RM'000	Total RM'000
At 1 July 2002	6,215	240	96	6,551
Recognised in the income statement	(522)	(240)	(44)	(806)
Exchange differences	-	-	(17)	(17)
At 30 June 2003	5,693	-	35	5,728

10. DEFERRED TAXATION (CONT'D)**Deferred Tax Assets**

	Provision for diminution in value of investments RM'000	Provision for doubtful debts RM'000	Provision for bonus RM'000	Others RM'000	Total RM'000
At 1 July 2002	(1,248)	(816)	(952)	(13)	(3,029)
Recognised in the income statement	(337)	(115)	89	(153)	(516)
At 30 June 2003	<u>(1,585)</u>	<u>(931)</u>	<u>(863)</u>	<u>(166)</u>	<u>(3,545)</u>

11. UNEARNED PREMIUM RESERVES

	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Misc. RM'000	Total RM'000
2004					
At 1 July 2003	25,144	31,810	1,071	33,783	91,808
Increase/(decrease) in reserves	3,056	(5,284)	109	(267)	(2,386)
Translation differences	45	224	43	308	620
At 30 June 2004	<u>28,245</u>	<u>26,750</u>	<u>1,223</u>	<u>33,824</u>	<u>90,042</u>
2003					
At 1 July 2002	27,910	35,686	2,507	28,776	94,879
Acquisition of business	198	174	23	217	612
(Decrease)/increase in reserves	(3,021)	(4,296)	(1,467)	4,442	(4,342)
Translation differences	57	246	8	348	659
At 30 June 2003	<u>25,144</u>	<u>31,810</u>	<u>1,071</u>	<u>33,783</u>	<u>91,808</u>

12. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	'000	'000	RM'000	RM'000
	2004	2003	2004	2003
(a) Authorised:				
At beginning/end of year	300,000	300,000	300,000	300,000
(b) Issued and fully paid:				
At beginning/end of year	178,171	178,171	178,171	178,171

13. OPERATING REVENUE

	Note	2004 RM'000	2003 RM'000
Gross premiums		285,129	295,507
Investment income	16	24,915	24,677
		<u>310,044</u>	<u>320,184</u>

14. NET CLAIMS INCURRED

	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Misc. RM'000	Total RM'000
2004					
Gross claims paid less salvage	31,144	45,473	41,408	75,725	193,750
Reinsurance recoveries	(20,060)	(2,924)	(37,790)	(36,735)	(97,509)
Net claims paid	11,084	42,549	3,618	38,990	96,241
Net outstanding claims:					
At 30 June 2004	16,556	79,366	13,214	84,730	193,866
At 1 July 2003	(16,011)	(95,381)	(16,009)	(73,429)	(200,830)
Translation differences	(76)	(248)	(37)	(331)	(692)
Net claims incurred	<u>11,553</u>	<u>26,286</u>	<u>786</u>	<u>49,960</u>	<u>88,585</u>

14. NET CLAIMS INCURRED (CONT'D)

	Fire	Motor	Marine, Aviation & Transit	Misc.	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2003					
Gross claims paid less salvage	28,380	64,149	29,309	86,111	207,949
Reinsurance recoveries	(15,458)	(5,225)	(24,629)	(50,227)	(95,539)
Net claims paid	12,922	58,924	4,680	35,884	112,410
Net outstanding claims:					
At 30 June 2003	16,011	95,381	16,009	73,429	200,830
Acquisition of business	(664)	(7,195)	(93)	(1,460)	(9,412)
At 1 July 2002	(19,625)	(111,698)	(17,954)	(77,394)	(226,671)
Translation differences	(13)	(366)	(56)	(494)	(929)
Net claims incurred	8,631	35,046	2,586	29,965	76,228

15. MANAGEMENT EXPENSES

	2004	2003
	RM'000	RM'000
Shareholders' Fund		
Depreciation of property, plant and equipment	576	576
General Business		
Staff costs (Note a):	26,098	28,138
Director's remuneration	-	557
Basic salary	15,980	18,515
EPF and CPF (excluding director's)	2,880	3,561
SOCSO	98	129
Short-term accumulating compensated absences	63	-
Bonus, allowances and other related costs	7,077	5,376
Directors' remuneration:		
Directors' fees:		
Payable to ultimate holding company	12	-
Payable to the holding company	19	12
Payable to Fortis B.V.	24	11
Payable to other directors (Note a)	51	57
Other emoluments:		
Payable to ultimate holding company	3	-
Payable to the holding company	7	3
Payable to Fortis B.V.	-	4
Payable to other directors (Note a)	13	15

15. MANAGEMENT EXPENSES (CONT'D)

	2004	2003
	RM'000	RM'000
Auditors' remuneration	168	170
Rental of offices	319	563
Rental of office equipment	111	135
Depreciation of property, plant and equipment	7,392	6,937
Interest expense	67	159
(Write-back of)/provision for bad and doubtful debts	(4,252)	8,919
Promotional and marketing cost	2,625	3,092
Utilities, assessment and maintenance	3,709	3,803
Printing and stationery	1,927	2,062
Computer upgrade and maintenance	2,635	2,553
Postage and stamp duties	712	819
Shared services	8,281	6,908
IT outsourcing	1,882	-
Other expenses	5,197	5,761
	<u>57,000</u>	<u>70,121</u>

(a) Remuneration of directors and chief executive officer ("CEO")

	2004	2003
	RM'000	RM'000
CEO*		
- Salary	226	251
- EPF	41	57
- Bonus	102	106
- Benefits-in-kind	28	54
- Other emoluments	-	143
	<u>397</u>	<u>611</u>
Non-executive directors		
- Fees	51	57
- Other emoluments	13	15
	<u>64</u>	<u>72</u>
Total directors' remuneration	<u>64</u>	<u>683</u>
Total CEO's remuneration included as staff costs (excluding benefits-in-kind)	<u>369</u>	<u>557</u>

* For 2003, the CEO was also an executive director.

15. MANAGEMENT EXPENSES (CONT'D)

The number of directors whose total remuneration received from the Company during the year that fall within the following bands is analysed below:

	Number of directors	
	2004	2003
Executive director		
RM500,001 - RM700,000	-	1
Non-executive directors		
Below RM50,000	8	9

16. INVESTMENT INCOME

	2004	2003
	RM'000	RM'000
Shareholders' Fund		
Interest from:		
Unquoted bonds in Malaysia	436	734
Fixed and call deposits	661	363
Other investments	205	197
Gross dividends from shares quoted in Malaysia	124	94
Amortisation of premiums	(14)	(43)
	<u>1,412</u>	<u>1,345</u>
General Business		
Interest from:		
MGS	341	738
Cagamas bonds	892	112
SGS	457	514
Malaysian Government guaranteed bonds	1,050	3,582
Malaysian Government guaranteed loans	-	41
Fixed and call deposits	5,053	5,080
Staff loans	4	7
Other investments	620	324
Bonds/loan stocks of corporations:		
Quoted outside Malaysia	455	442
Unquoted in Malaysia	7,302	5,872
Unquoted outside Malaysia	38	209
Gross dividends from shares:		
Quoted in Malaysia	3,481	3,155
Quoted outside Malaysia	723	755
Rental income	2,383	2,388
Net accretion of discounts	704	113
	<u>23,503</u>	<u>23,332</u>
	<u>24,915</u>	<u>24,677</u>

17. OTHER INCOME/(EXPENDITURE) (NET)

	Shareholders' Fund		General Business	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Other income:				
Gain on disposal of property, plant and equipment	-	-	40	565
Gain on disposal of investments	152	466	10,542	6,578
Write-back of provision for diminution in value of investments	-	-	1,143	-
Sundry income	-	-	113	223
	<u>152</u>	<u>466</u>	<u>11,838</u>	<u>7,366</u>
Other expenditure:				
Amortisation of goodwill	10,656	10,656	-	-
Property, plant and equipment written off	-	-	77	361
Loss on disposal of investments	-	-	646	713
Realised loss on foreign exchange	-	-	44	47
Impairment losses on property, plant and equipment	-	-	-	74
Impairment losses on investment properties	-	-	-	289
Provision for diminution in value of investments	294	203	-	729
Sundry expenditure	16	16	1,510	1,350
	<u>10,966</u>	<u>10,875</u>	<u>2,277</u>	<u>3,563</u>
	<u>(10,814)</u>	<u>(10,409)</u>	<u>9,561</u>	<u>3,803</u>

18. TAXATION

	2004	2003
	RM'000	RM'000
Income tax:		
Current year's provision		
Malaysian	20,220	22,109
Foreign	2,017	1,224
Double taxation relief	(562)	(1,224)
	<u>21,675</u>	<u>22,109</u>
(Over)/under provision of taxation in prior years	(3,181)	177
Deferred taxation:		
Relating to origination and reversal of temporary differences (Note 10)	1,302	(1,322)
Relating to reduction in foreign income tax rate	44	-
Tax expense for the year	<u>19,840</u>	<u>20,964</u>

18. TAXATION (CONT'D)

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

	2004	2003
	RM'000	RM'000
Profit before taxation	74,439	61,382
Taxation at Malaysian statutory tax rate of 28% (2003: 28%)	20,843	17,187
Effect of different tax rate outside Malaysia	(1,108)	(223)
Income not subject to tax	(332)	(41)
Expenses not deductible for tax purposes	3,574	3,864
(Over)/underprovision of taxation in prior years	(3,181)	177
Effects of changes in foreign tax rate	44	-
Tax expense for the year	<u>19,840</u>	<u>20,964</u>

As at 30 June 2004, the Company has tax exempt profits available for distribution of approximately RM 53,593,147 (2003: RM77,916,000).

The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt profits to frank the payment of dividends out of its entire retained profits as at 30 June 2004.

19. EARNINGS PER SHARE - BASIC

Basic earnings per ordinary share is calculated by dividing the net profit for the year by the number of ordinary shares in issue during the financial year.

	2004	2003
Net profit for the year (RM'000)	54,599	40,418
Number of ordinary shares in issue during the financial year ('000)	178,171	178,171
Basic earnings per share (sen)	<u>30.6</u>	<u>22.7</u>

20. DIVIDENDS

	Amount		Net dividend per share	
	2004 RM'000	2003 RM'000	2004 Sen	2003 Sen
Special tax exempt interim dividend of 21% (2003: 20% less 28% taxation)	37,416	25,657	21.0	14.4

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

21. SEGMENT INFORMATION ON CASH FLOW

	Shareholders' Fund RM'000	General Business RM'000	Total RM'000
2004			
Cash flows from:			
Operating activities	755	288	1,043
Investing activities	-	(884)	(884)
	<u>755</u>	<u>(596)</u>	<u>159</u>
Net increase/(decrease) in cash and bank balances	755	(596)	159
At beginning of the year, as previously reported	1,322	8,300	9,622
Effect of exchange rate changes	-	169	169
At beginning of year, as restated	1,322	8,469	9,791
At end of year	<u>2,077</u>	<u>7,873</u>	<u>9,950</u>
2003			
Cash flows from:			
Operating activities	1,090	39,203	40,293
Investing activities	-	(40,509)	(40,509)
	<u>1,090</u>	<u>(1,306)</u>	<u>(216)</u>
Net increase/(decrease) in cash and bank balances	1,090	(1,306)	(216)
At beginning of the year, as previously reported	232	9,608	9,840
Effect of exchange rate changes	-	(2)	(2)
At beginning of year, as restated	232	9,606	9,838
At end of year	<u>1,322</u>	<u>8,300</u>	<u>9,622</u>

22. OPERATING LEASE COMMITMENTS

As at the balance sheet date, the Singapore branch leases its office premises and equipment under lease agreements that are not cancellable within a year. The leases contain renewable options. Lease terms do not contain restrictions on the branch's activities concerning additional debts or further leasing.

Future minimum lease payments for the lease with initial or remaining terms of one year or more are as follows:

	2004	2003
	RM'000	RM'000
Within 1 year	51	26
After 1 year but not more than five years	93	26
	<u>144</u>	<u>52</u>

23. OTHER COMMITMENTS AND CONTINGENCIES

- (a) The Singapore branch has given an undertaking to Export Credit Insurance Corporation of Singapore Limited ("ECICS") to lend up to S\$150,000, equivalent to RM331,000 (2003: S\$150,000 equivalent to RM324,000) as at the balance sheet date, if necessary, to meet claims arising as part of the export credit insurance business of ECICS. ECICS may at its option, convert the whole or any part of any such loan into fully paid shares with a par value of S\$1 each.
- (b) A bank covenant amounting to S\$500,000 equivalent to RM1,105,000 (2003: S\$500,000 equivalent to RM1,080,000) was lodged with the Monetary Authority of Singapore in lieu of the statutory deposit required by the Singapore Insurance Act Chapter 142 in respect of the Singapore branch.

24. SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant transactions of the Company with related parties during the financial year were as follows:

	2004	2003
	RM'000	RM'000
Transactions with the ultimate holding company:		
Gross insurance premium income	14,302	16,114
Interest income	471	719
Commissions and fee expense	(18,453)	(13,117)
Rental income	672	657
Rental expense	-	(3)
	<u> </u>	<u> </u>

24. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

	2004	2003
	RM'000	RM'000
Transactions with the holding company:		
Gross insurance premium income	486	45
Transactions with other related companies within Malayan Banking Berhad ("MBB") group:		
Gross insurance premium income	3,017	2,483
Interest income	1,494	1,341
Commissions and fee expense	(5,704)	(5,722)
Rental income	1,282	1,553
Rental expense	(70)	(168)

Other related companies within MBB group include Mayban Finance Berhad, Aseambankers Malaysia Berhad, Mayban Securities Sdn. Bhd., Mayban Discount Berhad, Mayban Futures Sdn. Bhd., Mayban Life Assurance Bhd., Mayban Takaful Berhad, Mayban Life International (Labuan) Ltd, Mayban Unit Trust Berhad, Mayban Investment Management Sdn. Bhd., Mayban Ventures Sdn. Bhd. and Mayban Trustees Berhad.

	2004	2003
	RM'000	RM'000
Transactions with other related parties:		
Reinsurance premiums on facultative/treaty policies (net) with Labuan Reinsurance (L) Ltd.	(1,908)	(4,292)
Reinsurance premiums on facultative/treaty policies (net) with Malaysian National Reinsurance Berhad	(11,168)	(6,423)
Reinsurance premiums on facultative/treaty policies (net) with Malaysia National Insurance Berhad	1	(9)
Net commission from Labuan Reinsurance (L) Ltd.	428	854
Net commission from Malaysian National Reinsurance Berhad	2,789	955
Net commission (to)/from Malaysia National Insurance Berhad	(6)	1

- (a) Kasim bin Zakaria is a director of Labuan Reinsurance (L) Ltd.
- (b) Mohammad bin Abdullah, a director of MBB, is a director of Labuan Reinsurance (L) Ltd., and Malaysian National Reinsurance Berhad.
- (c) Datuk Abdul Rahman Mohd. Ramli, a director of MBB, is a director of Malaysia National Insurance Berhad.

24. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

	2004	2003
	RM'000	RM'000
Transaction with an affiliated company:		
Fee expense paid to Computer Recovery Centre Sdn. Bhd., an associated company of MBB	(175)	(151)

The directors are of the opinion that the above transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

25. SIGNIFICANT RELATED PARTY BALANCES

Included in the balance sheet date of the Company are amounts due from/(to) related companies represented by the following:

	2004	2003
	RM'000	RM'000
Ultimate holding company:		
Bank balances	9,835	8,961
Fixed and call deposits	26,789	24,148
Outstanding premiums	3,520	5,734
Income due and accrued	365	409
Commissions payable	(3,292)	(267)
Holding company:		
Outstanding premiums	-	33
Other (payables)/receivables	(304)	38
Shared services costs	(2,656)	(6,817)
Other related companies within MBB group:		
Bank balances	87	-
Fixed and call deposits	67,184	62,395
Outstanding premiums	694	1,058
Income due and accrued	276	103
Other payables	(1,228)	(377)

Other related companies within MBB group include Mayban Finance Berhad, Mayban Discount Berhad, Aseambankers Malaysia Berhad, Mayban Life Assurance Berhad, Mayban Takaful Berhad, Mayban Securities Sdn. Bhd., Mayban Unit Trust Berhad, Mayban Ventures Sdn. Bhd. and Mayban Investment Management Sdn. Bhd..

25. SIGNIFICANT RELATED PARTY BALANCES (CONT'D)

	2004	2003
	RM'000	RM'000
Balances with other related parties:		
Trade payable to Labuan Reinsurance (L) Ltd.	(1,012)	(823)
Trade (payable to)/receivable from Malaysian National Reinsurance Berhad	(403)	1,301
Trade receivable from/(payable to) Malaysia National Insurance Berhad	29	(16)
	<u>29</u>	<u>(16)</u>

26. FINANCIAL INSTRUMENTS**(a) Financial Risk Management Policies**

Mayban General Assurance Berhad's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Company's businesses whilst managing its various risks. The overall objective is to safeguard the interests of all its stakeholders. Risk management at Mayban Fortis Group ("Mayban Fortis") is therefore organised both centrally and on a business unit basis. As the first line of defence, Mayban General Assurance Berhad ("Mayban Assurance") is responsible for the day-to-day management of risks inherent in their business activities. The Finance and Risk Management Division of Mayban Fortis Group 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 the Maybank 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 the Maybank Group's risk management approach.

26. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

A. Types of Risk

Risks can arise in all operational areas, functions, processes, and also from external events. Assessing the risk situation of Mayban Fortis Group therefore requires a holistic approach. At Mayban Fortis Group level, risks specific to Mayban Assurance are classified as follows:

(i) Underwriting risk or insurance business risk

This relates to the risks inherent in the business activities of general business. Such risks include reinsurance risk and claims reserving risk. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers, retrocessionaires, cedants and brokers. Special attention is given to the adequacy of claims reserves. The appointed actuary will assess the reserving basis on a regular basis in accordance with BNM guidelines.

(ii) Financial risk

Financial risks comprise of 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, share prices or exchange rates and perhaps to a certain extent property prices. 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.

(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.

B. 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 a consistent methodology for use throughout the entire Mayban Fortis Group has become the focal point of interests to the management and Boards of Mayban Fortis Group of companies. In essence, these could be described as follows:

26. FINANCIAL INSTRUMENTS (CONT'D)**(a) Financial Risk Management Policies (Cont'd)****B. Monitoring and Controlling Risks (Cont'd)**

- (i) Underwriting guidelines and limits have been well established to clearly regulate responsibility and accountability for the whole process of conducting insurance and reinsurance contracts. They spell 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 risks of defaults by reinsurers are 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.

- (ii) In order to manage financial risks, the Asset-Liability Committee ("ALCO") has been established. The ALCO is responsible for advising the Investment Committee ("IC"), the Risk Management Committee ("RMC") and the Board of Directors ("Board") on financial risk management. It is also 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 will be 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 approval. ALCO will then monitor the compliance to the approved mandate.

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.

- (iii) The process of implementing a comprehensive framework for monitoring and controlling operational risks is on-going. In the meantime, operational loss data using an approach similar to the requirements of the Bank for International Settlement Accord II (Basel II) is being collected, which is in line with the Maybank Group's operational risk framework. Key risk indicators are also compiled for deliberation at the RMC meeting. Another initiative to be carried out includes the risk self-assessment questionnaires. A risk communication programme is being carried out where the objective is to create risk awareness among all staff of the Mayban Fortis Group and to inculcate an appropriate risk culture to avoid the common fallacy to equate risk-awareness with being risk-averse.

26. FINANCIAL INSTRUMENTS (CONT'D)**(b) Fair Values**

The aggregate net fair values of financial assets and financial liabilities which are not carried at fair value on the balance sheet of the Company as at the end of the financial year are represented as follows:

	2004		2003	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
MGS	4,863	4,847	8,958	9,079
Cagamas bonds	25,843	25,847	15,862	15,865
GII	8,676	8,668	-	-
SGS	15,012	15,012	12,021	12,568
Malaysian Government guaranteed bonds	34,403	34,388	26,114	26,142
Malaysian Government guaranteed loans	-	-	270	272
NCD	35,760	36,177	63,071	64,522
Quoted investments				
In Malaysia	46,150	54,701	41,478	55,412
Outside Malaysia	27,646	30,049	32,181	32,427
Unquoted in Malaysia				
Bonds/loan stocks	138,329	141,353	103,851	112,778
Shares and warrants	290	*	541	*
Corporate bonds	7,500	*	5,000	*
Unquoted outside Malaysia				
Bonds/loan stocks	4,437	4,447	4,096	4,096

* it is not practical to estimate the fair value of these investments as there are no readily available secondary market indicative prices

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.

26. FINANCIAL INSTRUMENTS (CONT'D)

(b) Fair Values (Cont'd)

(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, bonds/loan stocks and NCD are indicative values obtained from the secondary market.

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

27. SIGNIFICANT AND SUBSEQUENT EVENT

The Board of Directors of MBB recommended a Proposed Employees Share Option Scheme ("ESOS") on 1 August 2003 after the expiry of the previous ESOS. The Proposed ESOS was approved by the Securities Commission ("SC") and BNM vide their letters dated 17 November 2003 and 19 January 2004 respectively. MBB later obtained the SC's approval vide its letter dated 17 May 2004 for an extension of time until 31 December 2004 to implement the Proposed ESOS.

MBB subsequently on 27 May 2004 proposed to revise, inter-alia, certain terms of the Proposed ESOS to incorporate recent changes to the SC's Policies and Guidelines on Issue/Offer of Securities and the Listing Requirements of Bursa Malaysia Securities Berhad.

MBB obtained approval-in-principle from Bursa Malaysia Securities Berhad vide its letter dated 24 June 2004 for the listing of such number of new ordinary shares to be issued pursuant to the exercise of options granted under the revised Proposed ESOS at any time during the existence of the revised scheme. The approval from BNM for the revised Proposed ESOS was obtained on 14 July 2004.

Subsequent to the financial year end, on 11 August 2004, the shareholders of the ultimate holding company, MBB approved the Proposed ESOS at an Extraordinary General Meeting. The Scheme grants options over ordinary shares of MBB to employees and certain non-executive directors of the Company who are eligible in accordance with the prescribed terms and conditions as detailed in the By-Laws of the Scheme.

28. CURRENCY

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