



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

Directors' Report and Audited Financial Statements
30 June 2006

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 2006.

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>65,989</u>

All material transfers to or from reserves or provisions during the financial year are 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 dividends paid by the Company since 30 June 2005 were as follows:

	RM'000
In respect of the financial year ended 30 June 2006:	
Special interim dividend of 39% less 28% taxation, paid on 25 October 2005	50,030
Special tax exempt interim dividend of 19%, paid on 25 October 2005	<u>33,853</u>
	<u>83,883</u>

The directors do not recommend the payment of any final dividend 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 Dato' Megat Zaharuddin bin Megat Mohd Nor (Chairman)

Damis Jacobus Ziengs (Vice Chairman)

Sulaiman bin Salleh

Tee Keng Sing

Gary Lee Crist

Zulkifly bin Sulaiman (appointed on 9 November 2005 and resigned on 14 December 2005)

Md Agil bin Mohd Natt (resigned on 30 June 2006)

Muhamad Umar Swift (resigned on 13 May 2006)

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'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.

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)**(a) Board Responsibilities (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 Dato' Megat Zaharuddin bin Megat Mohd Nor (Chairman)	6/6	100
Damis Jacobus Ziengs (Vice Chairman)	6/6	100
Sulaiman bin Salleh	6/6	100
Tee Keng Sing	5/6	83
Gary Lee Crist	6/6	100
Md Agil bin Mohd Natt	6/6	100
Muhamad Umar Swift	5/5	100
Zulkifly bin Sulaiman	-	-

(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 25 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.

CORPORATE GOVERNANCE (CONT'D)

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

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 holding company's level.

The composition of the AC 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 Haji Abdul Rahman bin Mohd Ramli (appointed on 17 May 2006)
Non-Independent Non-Executive Director

Datuk Dr. Syed Othman Alhabshi (appointed on 17 May 2006)
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. 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.

CORPORATE GOVERNANCE (CONT'D)

(e) Risk Management (Cont'd)

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 RMC 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 Bernardus Gerardus van Harten
Non-Independent Non-Executive Director

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

The RMC met 4 times during the financial year.

(f) Nomination Committee and Remuneration and Establishment Committee

The Board also takes responsibility in establishing the Nomination Committee and Remuneration and Establishment Committee. The Company will continue 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 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 and Establishment 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 composition of the Nomination Committee is as follows:

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

CORPORATE GOVERNANCE (CONT'D)

(f) Nomination Committee and Remuneration and Establishment Committee (Cont'd)

Mohammad bin Abdullah
Independent Non-Executive Director

Haji Mohd Hashir bin Haji Abdullah
Independent Non-Executive Director

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

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

Datuk Amirsham A. Aziz (resigned on 24 March 2006)
Non-Independent Executive Director

The Nomination Committee met 6 times during the financial year.

The composition of the Remuneration and Establishment 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 Haji Abdul Rahman bin Mohd Ramli
Non-Independent Non-Executive Director

Teh Soon Poh
Independent Non-Executive Director

The Remuneration and Establishment Committee met 12 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.

(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 AC 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 ultimate holding company's Maybank Group Employee Share Option Scheme ("ESOS").

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 as disclosed in Note 14 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 25 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 shares and options over shares in the ultimate holding company, MBB, during the financial year were as follows:

	Number of ordinary shares of RM1 each			
	1 July 2005	Exercise of ESOS	Sold	30 June 2006
The Company				
Tee Keng Sing				
- direct	45,000	-	-	45,000
- indirect	4,860,000	-	-	4,860,000
Ultimate holding company: Malayan Banking Berhad				
Direct interest:				
Sulaiman bin Salleh	3,000	-	3,000	-
Md Agil bin Mohd Natt	121,600	90,200	24,000	187,800
Indirect interest:				
Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor	10,000	-	-	10,000

DIRECTORS' INTERESTS (CONT'D)

	Option date	Option price RM	Number of options over ordinary shares of RM1 each			
			1 July 2005	Granted	Exercised	30 June 2006
Malayan Banking Berhad						
Md Agil bin Mohd Natt	1.9.2004	9.23	140,000	-	60,000	80,000
	15.10.2004	9.87	6,200	-	6,200	-
	14.11.2005	9.92	-	80,000	24,000	56,000
Sulaiman bin Salleh	1.9.2004	9.23	70,000	-	-	70,000
	14.11.2005	9.92	-	15,000	-	15,000

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 for the financial statements of the Company inadequate to any substantial extent; and
 - (ii) render the values attributed to the current assets in the financial statements of the Company misleading.

OTHER STATUTORY INFORMATION (CONT'D)

- (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.
- (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 EVENT

The significant event is as disclosed in Note 20 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

Megat Zaharuddin bin Megat Mohd Nor

Sulaiman bin Salleh

Kuala Lumpur, Malaysia
8 August 2006

**MAYBAN GENERAL ASSURANCE 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 Sulaiman bin Salleh, 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 13 to 56 are drawn up in accordance with applicable 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 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

Megat Zaharuddin bin Megat Mohd Nor

Sulaiman bin Salleh

Kuala Lumpur, Malaysia
8 August 2006

**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 13 to 56 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 8 August 2006

Zainal Abidin bin Mohd Noor

Before me,

Commissioner for Oaths

4157-A

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

We have audited the financial statements set out on pages 13 to 56. 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 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

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

Kuala Lumpur, Malaysia
8 August 2006

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006 RM'000	2005 RM'000
ASSETS			
Property and equipment	3	57,278	62,280
Investments	4	488,204	588,000
Staff loans	5	6,823	6,583
Receivables	6	47,827	52,186
Cash and bank balances		9,574	6,030
TOTAL ASSETS		<u>609,706</u>	<u>715,079</u>
LIABILITIES			
Provision for outstanding claims	7	181,501	191,190
Payables	8	40,759	34,693
Tax payable		6,284	3,489
Deferred taxation	9	2,102	4,028
		<u>230,646</u>	<u>233,400</u>
PROVISION FOR INSURANCE LIABILITIES			
Unearned premium reserves	10	<u>117,567</u>	<u>109,969</u>
SHAREHOLDERS' EQUITY			
Share capital	11	178,171	178,171
Reserves		83,322	193,539
		<u>261,493</u>	<u>371,710</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>609,706</u>	<u>715,079</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 2006

Note	Share capital RM'000	← Non-distributable →		← Distributable →		Total RM'000
		Share premium RM'000	Currency translation reserve RM'000	Special reserve RM'000	Retained profits RM'000	
At 1 July 2004						
As previously stated	178,171	249,929	12,662	-	66,148	506,910
Prior year adjustments	21	-	-	-	(174,949)	(174,949)
At 1 July 2004 (restated)	178,171	249,929	12,662	-	(108,801)	331,961
Currency translation differences representing net gains not recognised in the income statement	-	-	121	-	-	121
Net profit for the year	-	-	-	-	73,480	73,480
Dividends	19	-	-	-	(33,852)	(33,852)
At 30 June 2005	178,171	249,929	12,783	-	(69,173)	371,710
At 1 July 2005						
As previously stated	178,171	249,929	12,783	-	95,119	536,002
Prior year adjustments	21	-	-	-	(164,292)	(164,292)
At 1 July 2005 (restated)	178,171	249,929	12,783	-	(69,173)	371,710
Currency translation differences representing net gains not recognised in the income statement	-	-	3,889	-	-	3,889
Net profit for the year	-	-	-	-	65,989	65,989
Transfer to special reserve	20	(249,929)	-	249,929	-	-
Capital distribution	20	-	-	(96,212)	-	(96,212)
Transfer to retained profits	20	-	-	(90,515)	90,515	-
Dividends	19	-	-	-	(83,883)	(83,883)
At 30 June 2006	178,171	-	16,672	63,202	3,448	261,493

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

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 RM'000	2005 RM'000
Operating revenue	12	<u>367,708</u>	<u>350,476</u>
Surplus transferred from revenue account		93,258	96,568
Management expenses	14	(554)	(315)
Investment income	15	3,861	2,780
Other income/(expenditure) (net)	16	<u>479</u>	<u>(222)</u>
Profit before taxation		97,044	98,811
Taxation	17	<u>(31,055)</u>	<u>(25,331)</u>
Net profit for the year		<u>65,989</u>	<u>73,480</u>
Earnings per share - Basic (sen)	18	<u>37.0</u>	<u>41.2</u>
Net dividends per share (sen)	19	<u>47.1</u>	<u>19.0</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 2006

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous ("Misc.")		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premiums		102,009	92,866	79,329	69,708	8,627	9,411	150,996	153,070	340,961	325,055
Reinsurance		(13,959)	(14,219)	(4,201)	(3,965)	(2,737)	(3,025)	(21,916)	(27,452)	(42,813)	(48,661)
Net premiums		88,050	78,647	75,128	65,743	5,890	6,386	129,080	125,618	298,148	276,394
Increase in unearned premium reserves	10	(2,606)	(8,051)	(2,293)	(4,282)	(125)	(493)	(2,853)	(6,064)	(7,877)	(18,890)
Earned premium		85,444	70,596	72,835	61,461	5,765	5,893	126,227	119,554	290,271	257,504
Net claims incurred	13	(21,961)	(16,886)	(45,448)	(27,444)	1,806	1,566	(46,354)	(53,879)	(111,957)	(96,643)
Net commissions		(13,436)	(8,902)	(8,915)	(8,038)	(1,034)	(1,157)	(22,083)	(21,448)	(45,468)	(39,545)
Underwriting surplus before management expenses		50,047	44,808	18,472	25,979	6,537	6,302	57,790	44,227	132,846	121,316
Management expenses	14									(63,392)	(51,892)
Underwriting surplus										69,454	69,424
Investment income	15									22,886	22,641
Other income (net)	16									918	4,503
Transfer to income statement										93,258	96,568

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

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	97,044	98,811
Adjustment for:		
Increase in unearned premium reserves	7,877	18,890
Provision/(write-back of provision) for doubtful debts	5,201	(9,475)
Interest income	(19,261)	(18,463)
Interest expense	38	50
Gross dividend income	(3,646)	(3,851)
Net gain on disposal of investments	(6,543)	(4,632)
Net (write-back of)/provision for diminution in value of investments	(2,105)	154
Accretion of discounts net of amortisation of premiums	(747)	(697)
Impairment of investment properties	253	-
Impairment of investments	4,978	-
Write down of property and equipment	319	-
Depreciation of property and equipment	5,438	6,139
Short-term accumulating compensated absences	84	77
Gain on disposal of property and equipment	(827)	(1)
Information technology project cost	63	-
Property and equipment written off	-	10
Profit from operations before changes in operating assets and liabilities	88,166	87,012
Net increase in loans	(240)	(149)
Purchase of investments	(248,766)	(523,470)
Proceeds from disposal/maturity of investments	386,546	429,610
Net (increase)/decrease in fixed and call deposits	(30,174)	43,845
(Increase)/decrease in amounts due from insureds, agents, brokers, co-insurers and reinsurers	(7,357)	9,656
Decrease in other receivables	3,124	3,513
Decrease in outstanding claims	(9,286)	(4,003)
Increase/(decrease) in amounts due to insureds, agents, brokers, co-insurers and reinsurers	4,888	(13,259)
Increase/(decrease) in other payables	1,048	(2,608)
Foreign exchange fluctuation	(809)	(434)
Cash generated from operations	187,140	29,713

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006 (CONT'D)

	2006	2005
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D)		
Interest received	23,177	17,217
Interest paid	(38)	(50)
Net dividend received	3,553	3,172
Net dividend paid	(83,883)	(33,852)
Net tax paid	(30,236)	(19,552)
Net cash generated from/(used in) operating activities	<u>99,713</u>	<u>(3,352)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,344)	(796)
Proceeds from disposal of property and equipment	1,305	29
Net cash used in investing activities	<u>(39)</u>	<u>(767)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital distribution to shareholders representing net cash used in financing activities	<u>(96,212)</u>	<u>-</u>
NET INCREASE/(DECREASE) IN CASH AND BANK		
BALANCES	3,462	(4,119)
EFFECT OF EXCHANGE RATE CHANGES	82	199
CASH AND BANK BALANCES AT BEGINNING OF YEAR	<u>6,030</u>	<u>9,950</u>
CASH AND BANK BALANCES AT END OF YEAR	<u>9,574</u>	<u>6,030</u>

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

MAYBAN GENERAL ASSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2006

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 ("MFHB") and Malayan Banking Berhad ("MBB") respectively, both of which are incorporated in Malaysia. MBB 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 326 (2005: 326).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 8 August 2006.

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 MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and the relevant 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, the Company changed its policy on the treatment of goodwill. Previously, goodwill arising on acquisition was included in the balance sheet and amortised on a straight-line basis over a period of 20 years. Goodwill is now written off in full to retained profits, in line with MBB Group's accounting policy.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of Preparation (Cont'd)

Prior to the adoption of this accounting policy in the current financial year, the goodwill was 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 was stated at cost less accumulated amortisation and impairment losses. This change in accounting policy has been accounted for retrospectively and the effects of this change are disclosed in Note 21.

(b) 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.

(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 income is recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year 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.

(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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Underwriting Results (Cont'd)

(ii) Unearned Premium Reserves (Cont'd)

- 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%

- 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(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 and Equipment and Depreciation

Property 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 on leasehold land are depreciated over the shorter period of 50 years or the remaining period of the respective leases.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Property and Equipment and Depreciation (Cont'd)

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

Buildings on freehold land	2%
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 and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement/revenue account.

(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. Investment properties are not depreciated. The carrying amount of investment properties is reduced to recognise impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee Benefits

(i) Short-term Benefits

Wages, salaries, bonuses and social security ("SOCSSO") 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.

(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.

(i) Income Tax

Income tax on the profit or loss for the year comprises 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 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/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.

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.

Financial statements of an overseas branch are translated at year-end exchange rates with respect to the balance sheet date, and the results for the financial year are translated at average rates. Exchange differences arising from the retranslation of the net investment in foreign entities 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:

	2006	2005
	RM	RM
United States Dollar	3.68	3.80
Singapore Dollar	2.32	2.26

(k) 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 statement has been prepared using the indirect method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(1) 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 Financial Reporting Standard 132 - Financial Instruments: Disclosure and Presentation.

(i) Malaysian Government Securities and Other Approved Investments

Malaysian Government Securities and other approved investments inclusive of negotiable certificate deposits and negotiable islamic certificate deposits 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) Financial Instruments (Cont'd)

(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).

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

(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 provision are made for any premiums 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.

(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 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 2005	59,688	22,695	20,355	8,658	815	486	112,697
Additions	-	93	171	-	-	1,080	1,344
Disposals	(533)	(155)	(3,242)	-	(103)	-	(4,033)
Reversals**	-	(8)	(10)	(77)	-	-	(95)
Write-offs/expensed off	-	-	(301)	-	-	(63)	(364)
Write down	-	-	-	-	-	(319)	(319)
Reclassification	-	-	1,163	-	-	(1,163)	-
Translation differences	74	49	30	-	7	-	160
At 30 June 2006	59,229	22,674	18,166	8,581	719	21	109,390
Accumulated Depreciation and Impairment Losses							
At 1 July 2005							
Accumulated depreciation	6,563	19,459	19,117	4,389	815	-	50,343
Impairment losses	74	-	-	-	-	-	74
	6,637	19,459	19,117	4,389	815	-	50,417
Charge for the year	1,113	2,638	963	772	-	-	5,486
Disposals	(78)	(138)	(3,236)	-	(103)	-	(3,555)
Reversals**	-	(7)	(10)	(31)	-	-	(48)
Write-offs	-	-	(301)	-	-	-	(301)
Translation differences	44	40	22	-	7	-	113
At 30 June 2006	7,716	21,992	16,555	5,130	719	-	52,112
Net Book Value							
At 30 June 2006	51,513	682	1,611	3,451	-	21	57,278
At 30 June 2005	53,051	3,236	1,238	4,269	-	486	62,280
Details at 1 July 2004							
Cost	61,912	23,937	20,079	8,703	809	486	115,926
Accumulated depreciation	5,861	17,465	17,348	3,688	776	-	45,138
Impairment losses	74	-	-	-	-	-	74
Depreciation charge for 2005	670	2,972	1,760	701	36	-	6,139

** relates to cost reduction in property and equipment acquired in the previous years

3. PROPERTY 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 2005	294	239	8,894	50,261	59,688
Disposals	(294)	(239)	-	-	(533)
Translation differences	-	-	-	74	74
At 30 June 2006	-	-	8,894	50,335	59,229
Accumulated Depreciation and Impairment Losses					
At 1 July 2005					
Accumulated depreciation	-	75	494	5,994	6,563
Impairment losses	-	-	-	74	74
	-	75	494	6,068	6,637
Charge for the year	-	3	104	1,006	1,113
Disposals	-	(78)	-	-	(78)
Translation differences	-	-	-	44	44
At 30 June 2006	-	-	598	7,118	7,716
Net Book Value					
At 30 June 2006	-	-	8,296	43,217	51,513
At 30 June 2005	294	164	8,400	44,193	53,051
Details at 1 July 2004					
Cost	294	239	9,150	52,229	61,912
Accumulated depreciation	-	70	690	5,101	5,861
Impairment losses	-	-	-	74	74
Depreciation charge for 2005					
	-	5	(196)	861	670

3. PROPERTY AND EQUIPMENT (CONT'D)

Included in the property and equipment of the Company are the costs of fully depreciated assets which are still in use amounting to RM14,056,560 (2005: RM20,792,821).

4. INVESTMENTS

	2006		2005	
	Cost RM'000	Market/ indicative value* RM'000	Cost RM'000	Market/ indicative value* RM'000
Investment properties:				
Freehold land and buildings	1,901		16,812	
Impairment losses	(316)		(129)	
	<u>1,585</u>	1,700	<u>16,683</u>	20,552
Leasehold land and buildings	218	420	1,251	1,620
	<u>1,803</u>	<u>2,120</u>	<u>17,934</u>	<u>22,172</u>
Malaysian Government Securities ("MGS")	9,584		9,872	
Net amortisation of premiums	(467)		(339)	
	<u>9,117</u>	9,040	<u>9,533</u>	9,601
Government Investment Issues ("GII")	1,571		11,182	
Accretion of discounts	-		314	
	<u>1,571</u>	*1,572	<u>11,496</u>	*11,618
Cagamas bonds	25,015		40,284	
Amortisation of premiums	(10)		(34)	
	<u>25,005</u>	*24,794	<u>40,250</u>	*41,095
Singapore Government Securities ("SGS")	39,096		63,635	
Net amortisation of premiums	(54)		(67)	
Provision for diminution in value	(597)		-	
	<u>38,445</u>	<u>38,445</u>	<u>63,568</u>	<u>64,778</u>

4. INVESTMENTS (CONT'D)

	2006		2005	
	Cost	Market/ indicative value*	Cost	Market/ indicative value*
	RM'000	RM'000	RM'000	RM'000
Malaysian Government guaranteed bonds	6,116		29,252	
Net accretion of discounts	(282)		436	
	<u>5,834</u>	<u>*5,947</u>	<u>29,688</u>	<u>*30,343</u>
Negotiable Certificates of Deposit ("NCD")	34,388		63,700	
Net amortisation of premiums	(164)		(947)	
	<u>34,224</u>	<u>*33,988</u>	<u>62,753</u>	<u>*63,190</u>
Quoted in Malaysia:				
Shares and warrants of corporations	27,985		47,024	
Provision for diminution in value	7		(1,525)	
	<u>27,992</u>	<u>42,003</u>	<u>45,499</u>	<u>53,060</u>
Unit and property trusts	302		7,857	
Provision for diminution in value	-		(3,740)	
	<u>302</u>	<u>322</u>	<u>4,117</u>	<u>4,117</u>
Quoted outside Malaysia:				
Bonds/loan stocks of corporations	42,627		13,293	
Net amortisation of premiums	(124)		(42)	
Provision for diminution in value	(988)		-	
	<u>41,515</u>	<u>41,515</u>	<u>13,251</u>	<u>13,671</u>
Shares and warrants of corporations	11,586		10,311	
Provision for diminution in value	(618)		7	
	<u>10,968</u>	<u>10,996</u>	<u>10,318</u>	<u>11,031</u>

4. INVESTMENTS (CONT'D)

	2006	2005
	Cost	Cost
	RM'000	RM'000
Unquoted in Malaysia:		
Bonds/loan stocks of corporations	124,714	133,690
Net accretion of discounts	1,596	2,378
Impairment losses	(4,978)	-
	<u>121,332</u>	<u>136,068</u>
Shares and warrants of corporations	518	518
Provision for diminution in value	(228)	(228)
	<u>290</u>	<u>290</u>
Corporate loans	<u>9,250</u>	<u>10,000</u>
Unquoted outside Malaysia:		
Bonds/loan stocks of corporations	6,948	9,610
Net accretion of discounts	-	24
Provision for diminution in value	(48)	-
	<u>6,900</u>	<u>9,634</u>
Shares and warrants of corporations	2,961	4,462
Provision for diminution in value	-	(8)
	<u>2,961</u>	<u>4,454</u>
Fixed and call deposits with:		
Licensed banks	67,691	71,399
Other financial institutions **	83,004	47,748
	<u>150,695</u>	<u>119,147</u>
Total investments	<u>488,204</u>	<u>588,000</u>

* indicative values are obtained from the secondary market

** other financial institutions comprise discount houses and the Malaysian Building Society Berhad

4. INVESTMENTS (CONT'D)

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

	< 1 year	1 to < 3 years	3 to 5 years	> 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2006					
MGS	1,576	3,301	-	4,707	9,584
GII	-	-	-	1,571	1,571
Cagamas bonds	-	25,015	-	-	25,015
SGS	-	-	7,952	31,144	39,096
Malaysian Government guaranteed bonds	-	-	-	6,116	6,116
NCD	9,206	-	25,182	-	34,388
Quoted bonds/loan stocks of corporations outside Malaysia	-	13,462	8,037	21,128	42,627
Unquoted bonds/loan stocks of corporations:					
In Malaysia	4,883	14,332	35,819	69,680	124,714
Outside Malaysia	2,317	4,631	-	-	6,948
Corporate loans	-	-	-	9,250	9,250
Fixed and call deposits	149,923	772	-	-	150,695
	<u>167,905</u>	<u>61,513</u>	<u>76,990</u>	<u>143,596</u>	<u>450,004</u>

4. 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		RM'000	
2005					
MGS	-	8,362	1,510	-	9,872
GII	-	-	-	11,182	11,182
Cagamas bonds	-	25,015	15,269	-	40,284
SGS	-	20,380	27,072	16,183	63,635
Malaysian Government guaranteed bonds	-	23,136	-	6,116	29,252
NCD	-	36,312	-	27,388	63,700
Quoted bonds/loan stocks of corporations outside Malaysia	-	-	3,385	9,908	13,293
Unquoted bonds/ loan stocks of corporations:					
In Malaysia	15,067	21,216	37,921	59,486	133,690
Outside					
Malaysia	8,484	-	-	1,126	9,610
Corporate loans	-	-	-	10,000	10,000
Fixed and call deposits	118,859	288	-	-	119,147
	<u>142,410</u>	<u>134,709</u>	<u>85,157</u>	<u>141,389</u>	<u>503,665</u>

4. INVESTMENTS (CONT'D)

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

	2006	2005
	%	%
	per annum	per annum
MGS	4.39	3.43
GII	4.65	4.30
Cagamas bonds	3.51	3.53
SGS	3.16	2.50
Malaysian Government guaranteed bonds	5.30	4.01
Quoted bonds/loan stocks of corporations outside Malaysia	3.49	3.64
Unquoted bonds/loan stocks of corporations:		
In Malaysia	5.86	6.39
Outside Malaysia	3.27	2.67
NCD	4.65	4.24
Corporate loans	7.67	7.67
Fixed and call deposits with:		
Licensed banks	2.85	1.92
Other financial institutions	3.09	2.61

(iii) Fixed deposits amounting to RM13,978,756 (2005: RM13,847,253) were pledged to the ultimate holding company for bank guarantee facilities.

5. STAFF LOANS

	2006	2005
	RM'000	RM'000
Secured:		
Receivable within 12 months	601	580
Receivable after 12 months	6,199	5,986
	<u>6,800</u>	<u>6,566</u>
Unsecured:		
Receivable within 12 months	8	5
Receivable after 12 months	15	12
	<u>23</u>	<u>17</u>
	<u>6,823</u>	<u>6,583</u>

The weighted average effective interest rate during the year for staff loans was 3.52% (2005: 3.52%) per annum on the basis of monthly rest.

6. RECEIVABLES

	2006	2005
	RM'000	RM'000
Trade receivables:		
Outstanding premiums including agents, brokers and co-insurers balances	30,206	33,117
Provision for doubtful debts	<u>(1,696)</u>	<u>(4,146)</u>
	<u>28,510</u>	<u>28,971</u>
Amount due from reinsurers and ceding companies	31,545	22,179
Provision for doubtful debts	<u>(21,280)</u>	<u>(14,994)</u>
	<u>10,265</u>	<u>7,185</u>
Other receivables:		
Other receivables, deposits and prepayments	4,439	9,883
Income due and accrued	<u>4,613</u>	<u>6,147</u>
	<u>9,052</u>	<u>16,030</u>
	<u>47,827</u>	<u>52,186</u>

7. PROVISION FOR OUTSTANDING CLAIMS

	2006	2005
	RM'000	RM'000
Provision for outstanding claims	424,393	468,955
Recoverable from reinsurers	<u>(242,892)</u>	<u>(277,765)</u>
Net outstanding claims	<u>181,501</u>	<u>191,190</u>

8. PAYABLES

	2006	2005
	RM'000	RM'000
Trade payables:		
Amount due to reinsurers	13,337	7,774
Amount due to agents, brokers, co-insurers and insureds	6,205	6,822
	<u>19,542</u>	<u>14,596</u>
Other payables:		
Due to holding company	1,598	2,477
Sundry payables	19,619	17,620
	<u>21,217</u>	<u>20,097</u>
	<u>40,759</u>	<u>34,693</u>

The balance due to holding company is mainly in respect of reimbursement of shared services cost.

9. DEFERRED TAXATION

	2006	2005
	RM'000	RM'000
At beginning of year	4,028	3,517
Recognised in the income statement (Note 17)	(1,934)	504
Exchange differences	8	7
At end of year	<u>2,102</u>	<u>4,028</u>
Presented after appropriate offsetting as follows:		
Deferred tax liabilities	6,101	6,240
Deferred tax assets	(3,999)	(2,212)
	<u>2,102</u>	<u>4,028</u>

9. DEFERRED TAXATION (CONT'D)

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

2006**Deferred Tax Liabilities**

	Accelerated capital allowances RM'000	Others RM'000	Total RM'000
At 1 July 2005	5,763	477	6,240
Recognised in the income statement	172	(318)	(146)
Exchange differences	8	(1)	7
At 30 June 2006	<u>5,943</u>	<u>158</u>	<u>6,101</u>

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 2005	(1,252)	(90)	(940)	70	(2,212)
Recognised in the income statement	936	(1,039)	(236)	(1,449)	(1,788)
Exchange differences	-	(2)	-	3	1
At 30 June 2006	<u>(316)</u>	<u>(1,131)</u>	<u>(1,176)</u>	<u>(1,376)</u>	<u>(3,999)</u>

2005**Deferred Tax Liabilities**

	Accelerated capital allowances RM'000	Others RM'000	Total RM'000
At 1 July 2004	6,014	260	6,274
Recognised in the income statement	(257)	218	(39)
Exchange differences	6	(1)	5
At 30 June 2005	<u>5,763</u>	<u>477</u>	<u>6,240</u>

9. 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 2004	(1,198)	(898)	(685)	24	(2,757)
Recognised in the income statement	(54)	809	(255)	43	543
Exchange differences	-	(1)	-	3	2
At 30 June 2005	<u>(1,252)</u>	<u>(90)</u>	<u>(940)</u>	<u>70</u>	<u>(2,212)</u>

10. UNEARNED PREMIUM RESERVES

	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Misc. RM'000	Total RM'000
2006					
At 1 July 2005	36,366	31,435	1,737	40,431	109,969
Increase in reserves	2,606	2,293	125	2,853	7,877
Translation differences	(28)	(104)	(6)	(141)	(279)
At 30 June 2006	<u>38,944</u>	<u>33,624</u>	<u>1,856</u>	<u>43,143</u>	<u>117,567</u>
2005					
At 1 July 2004	28,245	26,750	1,223	33,824	90,042
Increase in reserves	8,051	4,282	493	6,064	18,890
Translation differences	70	403	21	543	1,037
At 30 June 2005	<u>36,366</u>	<u>31,435</u>	<u>1,737</u>	<u>40,431</u>	<u>109,969</u>

11. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2006 '000	2005 '000	2006 RM'000	2005 RM'000
(a) Authorised:				
At beginning/end of year	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
(b) Issued and fully paid:				
At beginning/end of year	<u>178,171</u>	<u>178,171</u>	<u>178,171</u>	<u>178,171</u>

12. OPERATING REVENUE

	Note	2006 RM'000	2005 RM'000
Gross premiums		340,961	325,055
Investment income	15	<u>26,747</u>	<u>25,421</u>
		<u>367,708</u>	<u>350,476</u>

13. NET CLAIMS INCURRED

	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Misc. RM'000	Total RM'000
2006					
Gross claims paid less salvage	23,531	47,841	31,910	139,535	242,817
Reinsurance recoveries	<u>(4,794)</u>	<u>(4,741)</u>	<u>(30,096)</u>	<u>(86,718)</u>	<u>(126,349)</u>
Net claims paid	18,737	43,100	1,814	52,817	116,468
Net outstanding claims:					
At 30 June 2006	23,469	65,137	6,123	86,772	181,501
At 1 July 2005	(20,321)	(67,648)	(9,748)	(93,473)	(191,190)
Reclassification of High Risk Motor Insurance Pool claims	-	4,733	-	-	4,733
Translation differences	<u>76</u>	<u>126</u>	<u>5</u>	<u>238</u>	<u>445</u>
Net claims incurred	<u>21,961</u>	<u>45,448</u>	<u>(1,806)</u>	<u>46,354</u>	<u>111,957</u>

13. NET CLAIMS INCURRED (CONT'D)

	Fire	Motor	Marine, Aviation & Transit	Misc.	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2005					
Gross claims paid less salvage	40,573	42,637	41,024	75,127	199,361
Reinsurance recoveries	(27,396)	(2,975)	(39,092)	(29,191)	(98,654)
Net claims paid	13,177	39,662	1,932	45,936	100,707
Net outstanding claims:					
At 30 June 2005	20,321	67,648	9,748	93,473	191,190
At 1 July 2004	(16,556)	(79,366)	(13,214)	(84,730)	(193,866)
Translation differences	(56)	(500)	(32)	(800)	(1,388)
Net claims incurred	16,886	27,444	(1,566)	53,879	96,643

14. MANAGEMENT EXPENSES

	2006	2005
	RM'000	RM'000
Shareholders' Fund		
Depreciation of property and equipment	520	315
Other expenses	34	-
	<u>554</u>	<u>315</u>
General Business		
Staff costs (Note a):	27,416	28,782
Basic salaries	15,766	16,534
EPF and CPF	3,015	2,872
SOCSO	121	102
Short-term accumulating compensated absences	84	77
Bonus, allowances and other related costs	8,430	9,197
Directors' remuneration:		
Directors' fees:		
Payable to the ultimate holding company	47	12
Payable to the holding company	2	15
Payable to a corporate shareholder, Fortis Insurance Int. NV (formerly known as Fortis B.V.)	50	20
Payable to other directors (Note a)	80	46
Other emoluments:		
Payable to the ultimate holding company	7	3
Payable to the holding company	-	4

14. MANAGEMENT EXPENSES (CONT'D)

	2006	2005
	RM'000	RM'000
Payable to a corporate shareholder, Fortis Insurance Int. NV (formerly known as Fortis B.V.)	10	3
Payable to other directors (Note a)	11	11
Auditors' remuneration:		
Current year	279	226
Underprovision in prior year	22	-
Rental of offices	245	186
Rental of office equipment	77	120
Depreciation of property and equipment	4,918	5,824
Interest expense	38	50
Provision/(write-back of provision) for bad and doubtful debts	5,201	(9,475)
Promotional and marketing cost	2,375	2,620
Utilities, assessment and maintenance	3,364	3,924
Printing and stationery	1,510	1,945
Computer upgrade and maintenance	1,267	2,119
Information technology project cost	63	-
Postage and stamp duties	884	1,011
Shared services	6,021	6,975
Outsourcing of information technology services	2,575	2,674
Other expenses	6,930	4,797
	<u>63,392</u>	<u>51,892</u>

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

	2006	2005
	RM'000	RM'000
CEO		
- Salary	268	248
- EPF	82	67
- Bonus	109	140
- Benefits-in-kind	66	48
	<u>525</u>	<u>503</u>
Non-executive directors		
- Fees	80	46
- Other emoluments	11	11
	<u>91</u>	<u>57</u>
Total directors' remuneration	<u>91</u>	<u>57</u>
Total CEO's remuneration included as staff costs (excluding benefits-in-kind)	<u>459</u>	<u>455</u>

14. 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	
	2006	2005
Non-executive directors		
Below RM50,000	8	12

15. INVESTMENT INCOME

	2006	2005
	RM'000	RM'000
Shareholders' Fund		
Interest from:		
MGS	21	82
Cagamas bonds	189	226
Malaysian Government guaranteed bonds	138	249
Unquoted bonds in Malaysia	996	657
Fixed and call deposits	943	876
Other investments	232	204
Gross dividends from shares:		
Quoted in Malaysia	887	497
Quoted outside Malaysia	140	36
Net accretion of discount/(amortisation of premiums)	315	(47)
	<u>3,861</u>	<u>2,780</u>
 General Business		
Interest from:		
MGS	298	317
Cagamas bonds	872	875
SGS	1,529	1,310
Malaysian Government guaranteed bonds	388	769
Fixed and call deposits	4,800	3,901
Staff loans	13	8
Other investments	873	824
Bonds/loan stocks of corporations:		
Quoted outside Malaysia	1,026	454
Unquoted in Malaysia	6,789	7,635
Unquoted outside Malaysia	154	76
Gross dividends from shares:		
Quoted in Malaysia	2,475	2,833
Quoted outside Malaysia	144	485
Rental income	3,093	2,410

15. INVESTMENT INCOME (CONT'D)

	2006	2005
	RM'000	RM'000
Net accretion of discounts	432	744
	<u>22,886</u>	<u>22,641</u>
	<u>26,747</u>	<u>25,421</u>

16. OTHER INCOME/(EXPENDITURE) (NET)

	Shareholders' Fund		General Business	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Other income:				
Gain on disposal of property and equipment	-	-	827	1
Gain on disposal of investments	5,902	473	1,980	7,049
Write-back of provision for diminution in value of investments	501	574	3,740	38
Gain on disposal of investment properties	51	-	5,420	460
Realised gain on foreign exchange	-	-	-	252
Sundry income	1	-	182	60
	<u>6,455</u>	<u>1,047</u>	<u>12,149</u>	<u>7,860</u>
Other expenditure:				
Property and equipment written off	-	-	-	10
Loss on disposal of investments	-	885	6,810	2,465
Realised loss on foreign exchange	1	13	360	-
Provision for diminution in value of investments	898	352	1,238	414
Impairment of investments	4,978	-	-	-
Impairment of investment properties	-	-	253	-
Write down of property and equipment	-	-	319	-
Sundry expenditure	99	19	2,251	468
	<u>5,976</u>	<u>1,269</u>	<u>11,231</u>	<u>3,357</u>
	<u>479</u>	<u>(222)</u>	<u>918</u>	<u>4,503</u>

17. TAXATION

	2006	2005
	RM'000	RM'000
Income tax:		
Current year's provision		
Malaysian	26,514	22,404
Foreign	2,597	3,110
Double taxation relief	(687)	(687)
	<u>28,424</u>	<u>24,827</u>
Under provision of taxation in prior years	4,565	-
Deferred taxation:		
Relating to origination and reversal of temporary differences (Note 9)	(1,934)	504
Tax expense for the year	<u>31,055</u>	<u>25,331</u>

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:

	2006	2005
	RM'000	RM'000
Profit before taxation	<u>97,044</u>	<u>98,811</u>
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	27,172	27,667
Effect of different tax rate outside Malaysia	(1,039)	(1,244)
Income not subject to tax	(381)	(1,092)
Expenses not deductible for tax purposes	738	-
Under provision of taxation in prior years	4,565	-
Tax expense for the year	<u>31,055</u>	<u>25,331</u>

As at 30 June 2006, the Company has tax exempt profits available for distribution of approximately RM17,406,275 (2005: RM34,923,532).

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 2006.

18. 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.

	2006	2005
Net profit for the year (RM'000)	65,989	73,480
Number of ordinary shares in issue during the financial year ('000)	178,171	178,171
Basic earnings per share (sen)	<u>37.0</u>	<u>41.2</u>

19. DIVIDENDS

	Amount		Net dividend per share	
	2006	2005	2006	2005
	RM'000	RM'000	Sen	Sen
Special interim dividend of 39% (2005: Nil) less 28% taxation	50,030	-	28.1	-
Special tax exempt interim dividend of 19% (2005: 19% tax exempt)	<u>33,853</u>	<u>33,852</u>	<u>19.0</u>	<u>19.0</u>
	<u>83,883</u>	<u>33,852</u>	<u>47.1</u>	<u>19.0</u>

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

20. SIGNIFICANT EVENT

On 16 March 2006, the Company obtained approval from the High Court of Malaya to transfer its existing share premium into a distributable special reserve. Part of this special reserve was used for capital distribution to all shareholders of the Company and partly transferred to retained profit for the goodwill write off.

21. CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENTS

(a) Change in Accounting Policy

During the financial year, the Company changed its policy on the treatment of goodwill. Previously, goodwill arising on acquisition was included in the balance sheet and amortised on a straight-line basis over a period of 20 years. Goodwill is now written off in full immediately to retained profits, in line with the MBB Group's accounting policy.

(b) Prior Year Adjustments

The change in accounting policy has been applied retrospectively and comparatives have been restated. The effects of the change in accounting policy are as follows:

	2006	2005
	RM'000	RM'000
Effect on retained profits:		
At 1 July 2005/2004, as previously stated	95,119	66,148
Goodwill written off in full	(211,360)	(211,360)
Write back of accumulated amortisation of goodwill	47,068	36,411
At 1 July 2005/2004, as restated	<u>(69,173)</u>	<u>(108,801)</u>
Effect on net profit for the year:		
Net profit before change in accounting policy	55,332	62,823
Write back of amortisation of goodwill	10,657	10,657
Net profit for the year	<u>65,989</u>	<u>73,480</u>

Comparative amounts as at 30 June 2005 have been restated as follows:

	As		As
	Previously	Adjustments	Restated
	Stated	RM'000	RM'000
	RM'000	RM'000	RM'000
Goodwill arising from acquisition of business	211,360	(211,360)	-
Accumulated amortisation	(36,411)	36,411	-
Retained profits	<u>66,148</u>	<u>(174,949)</u>	<u>(108,801)</u>

22. SEGMENT INFORMATION ON CASH FLOW

	Shareholders' Fund RM'000	General Business RM'000	Total RM'000
2006			
Cash flows from:			
Operating activities	96,320	3,393	99,713
Investing activities	-	(39)	(39)
Financing activities	(96,212)	-	(96,212)
	<u>108</u>	<u>3,354</u>	<u>3,462</u>
Net increase in cash and bank balances	108	3,354	3,462
At beginning of the year, as previously reported	1,706	4,324	6,030
Effect of exchange rate changes	-	82	82
At beginning of year, as restated	<u>1,706</u>	<u>4,406</u>	<u>6,112</u>
At end of year	<u>1,814</u>	<u>7,760</u>	<u>9,574</u>
2005			
Cash flows from:			
Operating activities	(371)	(2,981)	(3,352)
Investing activities	-	(767)	(767)
	<u>(371)</u>	<u>(3,748)</u>	<u>(4,119)</u>
Net decrease in cash and bank balances	(371)	(3,748)	(4,119)
At beginning of the year, as previously reported	2,077	7,873	9,950
Effect of exchange rate changes	-	199	199
At beginning of year, as restated	<u>2,077</u>	<u>8,072</u>	<u>10,149</u>
At end of year	<u>1,706</u>	<u>4,324</u>	<u>6,030</u>

23. 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:

	2006	2005
	RM'000	RM'000
Within 1 year	39	52
After 1 year but not more than five years	-	43
	<u>39</u>	<u>95</u>

24. COMMITMENTS AND CONTINGENCIES

A bank covenant amounting to S\$500,000 equivalent to RM1,158,000 (2005: S\$500,000 equivalent to RM1,128,200) 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.

25. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	2006	2005
	RM'000	RM'000
Transactions with the ultimate holding company:		
Insurance premium income	16,339	16,427
Interest income	704	549
Gain on disposal of property	746	-
Commissions and fee expense	(25,297)	(27,508)
Rental income	2,130	2,042
Rental expense	<u>(16)</u>	<u>-</u>
Transactions with the holding company:		
Insurance premium income	<u>441</u>	<u>400</u>

25. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

	2006	2005
	RM'000	RM'000
Transactions with other related companies within the MBB group:		
Insurance premium income	798	629
Net reinsurance premiums on facultative/treaty policies	(3)	(24)
Interest income	1,554	1,667
Fee expense	(369)	(634)
Net reinsurance commissions on facultative/treaty policies	(17)	12
Rental income	240	-
Rental expense	(30)	(30)
Other expenses	(47)	(42)

Other related companies within the MBB group include Maybank International (L) Limited, Aseambankers (M) Berhad, Mayban Securities Sdn. Bhd., Mayban Discount Berhad, Mayban Trustees Berhad, 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., Malaysia National Insurance Berhad and Takaful Nasional Sdn. Berhad.

	2006	2005
	RM'000	RM'000
Transactions with other related parties:		
Reinsurance premiums on facultative/treaty policies (net) with Labuan Reinsurance (L) Ltd.	(753)	(709)
Reinsurance premiums on facultative/treaty policies (net) with Malaysian National Reinsurance Berhad	(10,898)	(11,586)
Reinsurance premiums on facultative/treaty policies (net) with Malaysia National Insurance Berhad #	(2)	(468)
Reinsurance premiums on facultative/treaty policies (net) with Takaful Nasional Sdn. Berhad #	-	(61)
Net commission from Labuan Reinsurance (L) Ltd.	151	153
Net commission from Malaysian National Reinsurance Berhad	2,687	2,819
Net commission from Malaysia National Insurance Berhad #	3	100
Net commission from Takaful Nasional Sdn. Berhad #	-	13

During the year, Malaysia National Insurance Berhad and Takaful Nasional Sdn. Berhad became related parties to the Company by virtue of MFHB's acquisition of MNI Holdings Berhad.

(a) Mohammad bin Abdullah, a director of MBB, is a director of Labuan Reinsurance (L) Ltd., and Malaysian National Reinsurance Berhad.

25. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

(b) Datuk Abdul Rahman bin Mohd. Ramli, a director of MBB, is a director of Malaysia National Insurance Berhad and Takaful Nasional Sdn. Berhad.

	2006	2005
	RM'000	RM'000
Transaction with an affiliated company:		
Fee expense paid to Computer Recovery Centre Sdn. Bhd., an associated company of MBB	(26)	(52)

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.

26. SIGNIFICANT RELATED PARTY BALANCES

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

	2006	2005
	RM'000	RM'000
Ultimate holding company:		
Bank balances	9,585	6,371
Fixed and call deposits	28,839	27,010
Outstanding premiums	6,295	6,467
Income due and accrued	548	373
Commissions and other payables	(4,233)	(4,195)
Holding company:		
Other payables	(1,020)	(439)
Shared services costs	(578)	(2,038)
Other related companies within the MBB group:		
Fixed and call deposits	58,004	47,748
Outstanding premiums	204	33
Income due and accrued	48	230
Other receivables	921	96
Trade payables	(512)	-
Other payables	-	(104)

26. SIGNIFICANT RELATED PARTY BALANCES (CONT'D)

Other related companies within the MBB group include Mayban Discount Berhad, Mayban Life Assurance Berhad, Mayban Takaful Berhad, Mayban Unit Trust Berhad, Maybank International (L) Ltd, Malaysia National Insurance Berhad and Takaful Nasional Sdn. Berhad.

	2006	2005
	RM'000	RM'000
Balances with other related parties:		
Trade payable to Labuan Reinsurance (L) Ltd.	(1,153)	(1,355)
Trade payable to Malaysian National Reinsurance Berhad	(1,707)	(1,491)
Trade receivable from Malaysia National Insurance Berhad	-	70
Trade payable to Takaful Nasional Sdn. Berhad	-	(23)

27. 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 MFHB Group is therefore organised both centrally and on a business unit basis. As the first line of defence, Mayban General Assurance Berhad is responsible for the day-to-day management of risks inherent in their business activities. The Risk Management Division of MFHB 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 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 the MBB Group's risk management approach.

27. 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 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 Insurance Risk, Financial Risk and Operational Risk.

(i) Insurance 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. The methodology used to assess, mitigate and control the risks identified are in accordance to the MBB Group operational risk framework.

27. FINANCIAL INSTRUMENTS (CONT'D)

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

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 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. 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) 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"), 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.

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

(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 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 MBB Group's 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 the Company has identified and managed its operational risks. A risk communication programme is being carried out where the objective is to create risk awareness among all staff of the MFHB Group and to inculcate an appropriate risk culture to avoid the common fallacy to equate risk-awareness with being risk-averse.

(b) Fair Values

The aggregate net fair values of financial assets of the Company as at the end of the financial year are represented as follows:

	2006		2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
MGS	9,117	9,040	9,533	9,601
Cagamas bonds	25,005	24,794	40,250	41,095
GII	1,571	1,572	11,496	11,618
SGS	38,445	38,445	63,568	64,778
Malaysian Government guaranteed bonds	5,834	5,947	29,688	30,343
NCD	34,224	33,988	62,753	63,190
Quoted in Malaysia:				
Shares and warrants	27,992	42,003	45,499	53,060
Unit and property trusts	302	322	4,117	4,117

27. FINANCIAL INSTRUMENTS (CONT'D)**(b) Fair Values (Cont'd)**

	2006		2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Quoted outside Malaysia:				
Bonds/loan stocks	41,515	41,515	13,251	13,671
Shares and warrants	10,968	10,996	10,318	11,031
Unquoted in Malaysia:				
Bonds/loan stocks	121,332	122,394	136,068	142,708
Shares and warrants	290	*	290	*
Corporate loans	9,250	*	10,000	*
Unquoted outside Malaysia:				
Bonds/loan stocks	6,900	6,900	9,634	9,731
Shares and warrants	2,961	*	4,454	*

* 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.

(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.

28. CURRENCY

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