



**American Home Assurance Company**  
**Malaysia (991951-W)** (Incorporated in the U.S.A.)

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OPERATIONS IN MALAYSIA

STATUTORY FINANCIAL STATEMENTS

**31 DECEMBER 2004**

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# CONTENTS

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|                                     |         |
|-------------------------------------|---------|
| STATUTORY DECLARATION               | 1       |
| STATEMENT OF CORPORATE GOVERNANCE   | 2 - 3   |
| AUDITORS' REPORT                    | 4       |
| STATEMENT OF ASSETS AND LIABILITIES | 5       |
| INCOME STATEMENT                    | 6       |
| GENERAL INSURANCE REVENUE ACCOUNT   | 7 - 8   |
| CASH FLOW STATEMENT                 | 9 - 10  |
| NOTES TO THE FINANCIAL STATEMENTS   | 11 - 38 |

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## **STATUTORY DECLARATION PURSUANT TO SECTION 336(6) OF THE COMPANIES ACT, 1965**

I, William Michael Rigby, the officer primarily responsible for the financial management of the operations in Malaysia of American Home Assurance Company, do solemnly and sincerely declare that the financial statements for the financial year ended 31 December 2004 set out on pages 5 to 38 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.

WILLIAM MICHAEL RIGBY

Subscribed and solemnly declared by the abovenamed William Michael Rigby at Kuala Lumpur on 28 March 2005.

Before me:

T. THANDONEE RAJAGOPAL (No. W228)  
COMMISSIONER FOR OATHS

Kuala Lumpur

## STATEMENT OF CORPORATE GOVERNANCE

The Management of the operations in Malaysia of American Home Assurance Company has pleasure in submitting the statement of Corporate Governance for the financial year ended 31 December 2004.

This Statement of Corporate Governance relates only to the activities of the Malaysian Branch of American Home Assurance Company.

### MANAGEMENT ACCOUNTABILITY

The Management has a documented and well-communicated organisational structure that clearly shows lines of reporting responsibility and authority. Individual's duties and responsibilities are documented in job descriptions. Anti-Money Laundering measures are diligently practised. Disclosure of conflicts of interest is required to be made once a year for all senior management under the American International Group ("AIG") Code of Conduct.

Proper communication channels have been put in place to ensure priority information is being communicated to the right personnel. Operational manuals which document policies and procedures, internal controls and risk management are constantly reviewed and updated. These manuals and updates are circulated to all staff concerned. Our Statement of Corporate Governance is overtly reflected on policies issued.

A formal process is in place and being practised for the development of individual goals. Staff performance appraisals are done annually with half yearly reviews to ensure all goals are on track and not in conflict with the AIG corporate objectives.

### CORPORATE INDEPENDENCE

The Management ensures compliance with JPI/GPI 19 in respect of Bank Negara Malaysia ("BNM") guidelines on Related-Party Transactions.

### INTERNAL CONTROLS AND OPERATIONAL RISK MANAGEMENT

An established and effective internal control and risk management system has been put in place to enable the recognition and continued assessment of material risks that could affect the Corporation's performance and financial condition. This system is constantly being reviewed to enhance its effectiveness.

A dedicated Internal Audit team is available to carry out independent examination of the operations. The team reports to the Audit Committee based in New York.

## STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

### PUBLIC ACCOUNTABILITY

The Management maintains a practice of professionalism in its business conduct. The policyholder's rights and interests are paramount in all consideration and decisions.

### FINANCIAL REPORTING

The Management ensures that books and records for the preparation of financial statements are properly maintained in accordance with approved accounting standards. Key financial information is made available to the public in accordance with the provision of Section 95(1) of the Insurance Act, 1996. Regular statutory reporting which is prepared with due care and diligence has been made as required by BNM.

BY THE MANAGEMENT OF AMERICAN HOME ASSURANCE COMPANY,  
OPERATIONS IN MALAYSIA

WILLIAM MICHAEL RIGBY  
28 March 2005

## AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE CORPORATION'S OPERATIONS IN MALAYSIA PURSUANT TO SECTION 336 OF THE COMPANIES ACT, 1965

We have audited the financial statements set out on pages 5 to 38 of the operations in Malaysia of American Home Assurance Company. These financial statements are the responsibility of the Corporation's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, 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 approved auditing standards 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB approved accounting standards in Malaysia so as to give a true and fair view of:

- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (ii) the state of affairs of the Corporation's operations in Malaysia as at 31 December 2004 and of the results and cash flows of the Corporation's operations in Malaysia for the financial year ended on that date;

and

(b) the accounting and other records required by the Act to be kept by the Corporation's operations in Malaysia have been properly kept in accordance with the provisions of the Act.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN  
(No. 1867/09/06 (J))  
Partner of the firm

Kuala Lumpur  
28 March 2005

## STATEMENT OF ASSETS AND LIABILITIES

AS AT 31 DECEMBER 2004

|   | Note | 2004<br>RM         | 2003<br>RM         |
|---|------|--------------------|--------------------|
| <b>ASSETS</b>                                   |      |                    |                    |
| Property, plant and equipment                   | 3    | 16,214,913         | 17,544,703         |
| Investments                                     | 4    | 540,235,337        | 487,116,691        |
| Loans   | 5    | 15,174,877         | 16,257,250         |
| Receivables                                     | 6    | 60,796,511         | 41,080,740         |
| Tax recoverable                                 |      | -                  | 906,517            |
| Deferred tax assets                             | 7    | 2,385,000          | 4,193,000          |
| Cash and bank balances                          |      | 7,473,033          | 38,686,530         |
| Total assets                                    |      | <u>642,279,671</u> | <u>605,785,431</u> |
| <b>LIABILITIES</b>                              |      |                    |                    |
| Provision for outstanding claims                | 8    | 164,053,087        | 153,155,488        |
| Payables  | 9    | 70,683,136         | 86,380,413         |
| Current tax liabilities                         |      | 1,898,617          | 776,934            |
|   |      | <u>236,634,840</u> | <u>240,312,835</u> |
| Unearned premium reserves                       | 10   | 193,255,108        | 172,224,055        |
| Total liabilities                               |      | <u>429,889,948</u> | <u>412,536,890</u> |
| <b>AMOUNT DUE TO HEAD OFFICE</b>                | 11   | <u>212,389,723</u> | <u>193,248,541</u> |
| Total liabilities and amount due to Head Office |      | <u>642,279,671</u> | <u>605,785,431</u> |

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

**INCOME STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

|  | Note | 2004<br>RM          | 2003<br>RM          |
|--|------|---------------------|---------------------|
| Operating revenue  | 12   | <u>462,989,504</u>  | <u>421,234,443</u>  |
| Shareholders' fund:  |      |                     |                     |
| Investment income  | 13   | 1,664,374           | 2,042,772           |
| Other operating income - net                               | 14   | <u>261,435</u>      | <u>2,663</u>        |
|  |      | 1,925,809           | 2,045,435           |
| Surplus transferred from General Insurance Revenue Account |      | <u>48,131,474</u>   | <u>38,469,023</u>   |
| Profit before taxation                                     |      | 50,057,283          | 40,514,458          |
| Taxation   | 15   | <u>(15,916,101)</u> | <u>(11,462,541)</u> |
| Net profit for the financial year                          |      | 34,141,182          | 29,051,917          |
| Retained earnings brought forward                          |      | <u>93,248,541</u>   | <u>75,196,624</u>   |
| Profits available for appropriation                        |      | 127,389,723         | 104,248,541         |
| Transfer to Head Office Account                            |      | <u>(15,000,000)</u> | <u>(11,000,000)</u> |
| Retained earnings carried forward                          |      | <u>112,389,723</u>  | <u>93,248,541</u>   |

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



**GENERAL INSURANCE REVENUE ACCOUNT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

|  | Note | Fire<br>RM         | Motor<br>RM         | Marine,<br>aviation<br>and transit<br>RM | Miscellaneous<br>RM | Total<br>RM         |
|--|------|--------------------|---------------------|--|---------------------|---------------------|
| Gross premium  |      | 132,120,313        | 153,779,117         | 8,783,757                                | 146,446,734         | 441,129,921         |
| Reinsurance  |      | (92,765,510)       | (13,560,149)        | (4,965,859)                              | (57,734,212)        | (169,025,730)       |
| Net premium  |      | <u>39,354,803</u>  | <u>140,218,968</u>  | <u>3,817,898</u>                         | <u>88,712,522</u>   | <u>272,104,191</u>  |
| (Increase)/decrease<br>in unearned premium<br>reserves           | 10   | (40,461,984)       | (4,933,032)         | 361,688                                  | 24,002,275          | (21,031,053)        |
| Earned premium   |      | <u>(1,107,181)</u> | <u>135,285,936</u>  | <u>4,179,586</u>                         | <u>112,714,797</u>  | <u>251,073,138</u>  |
| Net claims incurred  | 16   | (14,019,762)       | (97,804,000)        | (1,874,798)                              | (36,339,935)        | (150,038,495)       |
| Net commission   |      | <u>7,553,916</u>   | <u>(14,751,218)</u> | <u>140,966</u>                           | <u>(5,795,359)</u>  | <u>(12,851,695)</u> |
| Underwriting (deficit)/<br>surplus before<br>management expenses |      | <u>(7,573,027)</u> | <u>22,730,718</u>   | <u>2,445,754</u>                         | <u>70,579,503</u>   | <u>88,182,948</u>   |
| Management expenses  | 17   |                    |                     |  |                     | (63,016,420)        |
| Underwriting surplus   |      |                    |                     |  |                     | <u>25,166,528</u>   |
| Investment income  | 13   |                    |                     |  |                     | 20,195,209          |
| Other operating<br>income - net                                  | 14   |                    |                     |  |                     | <u>2,769,737</u>    |
| Surplus transferred to<br>Income Statement                       |      |                    |                     |  |                     | <u>48,131,474</u>   |

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

**GENERAL INSURANCE REVENUE ACCOUNT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

|  | <b>Note</b> | <b>Fire<br/>RM</b> | <b>Motor<br/>RM</b> | <b>Marine,<br/>aviation<br/>and transit<br/>RM</b> | <b>Miscellaneous<br/>RM</b> | <b>Total<br/>RM</b>  |
|--|-------------|--------------------|---------------------|--|-----------------------------|----------------------|
| Gross premium  |             | 64,669,270         | 143,938,902         | 10,328,051   | 182,604,571                 | 401,540,794          |
| Reinsurance  |             | (34,103,893)       | (11,902,831)        | (6,287,545)  | (104,098,110)               | (156,392,379)        |
| Net premium  |             | <u>30,565,377</u>  | <u>132,036,071</u>  | <u>4,040,506</u>                                   | <u>78,506,461</u>           | <u>245,148,415</u>   |
| Decrease/(increase)<br>in unearned premium<br>reserves | 10          | <u>468,819</u>     | <u>(480,113)</u>    | <u>(208,925)</u>                                   | <u>(30,722,001)</u>         | <u>(30,942,220)</u>  |
| Earned premium   |             | <u>31,034,196</u>  | <u>131,555,958</u>  | <u>3,831,581</u>                                   | <u>47,784,460</u>           | <u>214,206,195</u>   |
| Net claims incurred                                    | 16          | <u>(8,992,267)</u> | <u>(88,840,183)</u> | <u>(1,748,122)</u>                                 | <u>(27,458,418)</u>         | <u>(127,038,990)</u> |
| Net commission   |             | <u>(690,704)</u>   | <u>(13,692,980)</u> | <u>313,616</u>                                     | <u>2,550,402</u>            | <u>(11,519,666)</u>  |
| Underwriting surplus<br>before management<br>expenses  |             | <u>21,351,225</u>  | <u>29,022,795</u>   | <u>2,397,075</u>                                   | <u>22,876,444</u>           | <u>75,647,539</u>    |
| Management expenses                                    | 17          |                    |                     |  |                             | <u>(55,887,200)</u>  |
| Underwriting surplus                                   |             |                    |                     |  |                             | <u>19,760,339</u>    |
| Investment income                                      | 13          |                    |                     |  |                             | <u>17,650,877</u>    |
| Other operating<br>income - net                        | 14          |                    |                     |  |                             | <u>1,057,807</u>     |
| Surplus transferred to<br>Income Statement             |             |                    |                     |  |                             | <u>38,469,023</u>    |

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

**CASH FLOW STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

|   | Note | 2004<br>RM          | 2003<br>RM          |
|---|------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |      |                     |                     |
| Net profit for the financial year                                 |      | 34,141,182          | 29,051,917          |
| Adjustments for:  |      |                     |                     |
| Property, plant and equipment                                     |      |                     |                     |
| - depreciation  |      | 3,333,069           | 2,128,813           |
| - (gain)/loss on disposal   |      | (23,000)            | 92,781              |
| Investment income   |      | (21,859,583)        | (19,693,649)        |
| Write-back of allowance for diminution in value<br>of investments |      | -                   | (280,978)           |
| Gain on disposal of investments                                   |      | (2,723,934)         | (326,889)           |
| Increase in unearned premium reserves                             |      | 21,031,053          | 30,942,220          |
| Taxation  |      | 15,916,101          | 11,462,541          |
|   |      | <u>49,814,888</u>   | <u>53,376,756</u>   |
| (Increase)/decrease in fixed deposits                             |      | (42,323,754)        | 61,642              |
| Increase in provision for outstanding claims                      |      | 10,897,599          | 1,133,937           |
| Increase in trade payables  |      | 4,475,737           | 5,500,770           |
| (Decrease)/Increase in other payables                             |      | (20,173,014)        | 20,360,789          |
| Decrease in loans   |      | 1,082,373           | 258,852             |
| (Increase)/decrease in trade receivables                          |      | (21,980,401)        | 7,039,561           |
| Decrease in other receivables                                     |      | 1,010,704           | 651,995             |
| Investment income received  |      | 29,744,331          | 23,639,200          |
| Proceeds from disposal of investments                             |      | 260,198,416         | 203,600,638         |
| Purchase of investments   |      | (274,900,196)       | (257,130,520)       |
|   |      | <u>(2,153,317)</u>  | <u>58,493,620</u>   |
| Cash (used in)/generated from operations                          |      |                     |                     |
| Tax refunded  |      | 906,435             | 5,951,352           |
| Tax paid  |      | (12,986,336)        | (20,910,880)        |
| Net cash (outflow)/inflow from operating activities               | 18   | <u>(14,233,218)</u> | <u>43,534,092</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |      |                     |                     |
| Proceeds from disposal of property, plant and equipment           |      | 30,319              | 1,000               |
| Purchase of property, plant and equipment                         |      | (2,010,598)         | (13,061,865)        |
| Net cash outflow from investing activities                        | 18   | <u>(1,980,279)</u>  | <u>(13,060,865)</u> |

**CASH FLOW STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (Continued)

|   | Note | 2004<br>RM          | 2003<br>RM          |
|---|------|---------------------|---------------------|
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                  |      |                     |                     |
| Transfer to Head Office                                     |      | (15,000,000)        | (11,000,000)        |
| Net cash outflow from financing activities                  | 18   | <u>(15,000,000)</u> | <u>(11,000,000)</u> |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b> | 18   | (31,213,497)        | 19,473,227          |
| <b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>               |      | <u>38,686,530</u>   | <u>19,213,303</u>   |
| <b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>             |      | <u>7,473,033</u>    | <u>38,686,530</u>   |
| Cash and cash equivalents comprise:                         |      |                     |                     |
| Cash and bank balances                                      |      | <u>7,473,033</u>    | <u>38,686,530</u>   |

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

## NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2004

### 1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The principal activity of the Corporation's operations in Malaysia ("the Branch") is the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The number of employees as at the end of the financial year in the Branch was 597 (2003: 556).

The ultimate holding corporation of American Home Assurance Company is American International Group, Inc., a corporation incorporated in the United States of America.

The address of the registered office and principal place of business of the Branch is Wisma AIG, No 99, Jalan Ampang, 50450 Kuala Lumpur.

The financial statements were authorised for issue on 28 March 2005.

### 2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

#### (a) Basis of preparation

The financial statements of the Branch have been prepared under the historical cost convention and comply with MASB approved accounting standards in Malaysia, the provisions of the Companies Act, 1965, the Insurance Act, 1996 and relevant Guidelines and Circulars issued by Bank Negara Malaysia ("BNM") in all material aspects.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965 and MASB approved accounting standards in Malaysia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. Although these estimates are based on the Management's best knowledge of current events and actions, actual results may differ from estimates.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (b) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

Depreciation of property, plant and equipment is provided on a straight line basis calculated to write off the cost of each asset over the estimated useful lives of the assets concerned. The annual rates used are:

|                         |           |
|-------------------------|-----------|
| Furniture and equipment | 10% - 20% |
| Computer equipment      | 10% - 20% |
| Motor vehicles          | 20%       |
| Renovation              | 5% - 20%  |

At each financial year end, the Branch assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(g) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the revenue account and/or income statement.

Repairs and maintenance are charged to the revenue account and/or income statement during the financial year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Branch. Major renovations are depreciated over the remaining useful life of the related assets.

### (c) Foreign currencies

Foreign currency transactions in the Branch are accounted for at the exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at the exchange rates prevailing at the date of the statement of assets and liabilities. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement and/or revenue account.

The principal closing rates used in the translation of foreign currency amounts as at the financial year end are as follows:

| Foreign currency     | 2004  | 2003  |
|----------------------|-------|-------|
| United States Dollar | 3.800 | 3.800 |
| Singapore Dollar     | 2.246 | 2.230 |
| Hong Kong Dollar     | 0.494 | 0.489 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (d) Investments

Malaysian Government Securities, Cagamas papers and other unquoted approved debt securities as specified by BNM which are intended to be held to maturity, are stated at cost, adjusted for the amortisation of premiums or accretion of discounts, calculated on a constant yield basis, from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the revenue account and/or income statement.

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

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

### (e) Employee benefits

#### (i) Short-term employees benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Branch.

#### (ii) Post-employment benefits

The Branch's contributions to the Employees' Provident Fund, the national defined contribution plan, are charged to the income statement and/or revenue account in the financial year to which they relate. Once the contributions have been paid, the Branch has no further payment obligations.

### (f) Trade receivables

Trade receivables are carried at invoiced amount less an allowance made for doubtful debts.

Known bad debts are written off and specific allowance is made for any premiums including agents' balances or reinsurance balances which remain outstanding for more than six months from the date on which they become receivable and for all debts which are considered doubtful.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (g) Impairment of assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to the revenue account and/or income statement immediately.

A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the revenue account and/or income statement immediately.

### (h) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement and revenue account on a straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

### (i) General insurance underwriting results

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

#### 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 premium debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the date of the statement of assets and liabilities are accrued at the 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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 the policies at the end of the financial year.

In determining the UPR at the date of the statement of assets and liabilities, the method that most accurately reflects the actual unearned premium is used. UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine cargo, aviation cargo and transit business;
- (ii) 1/24th method for all other classes of general business in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and
- (iii) time apportionment method for non-annual policies, reduced by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM.

### Provision for claims

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

Provision is also made for the cost of claims, together with related expenses, incurred but not reported (“IBNR”) at the date of the statement of assets and liabilities, based on an actuarial valuation carried out by an independent professional actuary, using a proper and consistent method of estimation based on properly collated claims statistics.

### 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 financial periods in which it is probable they give rise to income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (j) Other revenue recognition

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

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

Dividend income is recognised when the right to receive payment is established.

Gains or losses arising on disposal of investments are credited or charged to the revenue account and/or income statement.

### (k) Income taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Branch operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the statement of assets and liabilities date are used to determine deferred tax.

### (l) Contingent liabilities and contingent assets

The Branch does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Branch or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Branch. The Branch does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

### (m) Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (n) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances excluding fixed and call deposits, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (o) Financial instruments

#### Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

#### Recognition method

The particular recognition method adopted for financial instruments recognised on the statement of assets and liabilities date is disclosed in the individual accounting policy note associated with each item.

#### Fair values

The Branch's basis of estimation of fair values for financial instruments is as follows:

| <b>Component</b>  | <b>Method of determining fair values</b>   |
|---|--|
| <ul style="list-style-type: none"> <li>• Malaysian Government Securities and Cagamas papers</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Indicative market prices</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Unquoted corporate debt securities</li> </ul>  | <ul style="list-style-type: none"> <li>• Interest rate yield obtained from comparable quoted investments</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Quoted equity securities</li> </ul>  | <ul style="list-style-type: none"> <li>• Quoted market prices</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Loans receivable</li> </ul>  | <ul style="list-style-type: none"> <li>• Discounted future cash flows based on the contracted maturity period. Discount rates are based on current market value</li> </ul> |
| <ul style="list-style-type: none"> <li>• Other financial assets and liabilities with a maturity period of less than one year</li> </ul> | <ul style="list-style-type: none"> <li>• Carrying values assumed to approximate their fair values</li> </ul>   |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 PROPERTY, PLANT AND EQUIPMENT

|  | Furniture and<br>equipment<br>RM | Computer<br>equipment<br>RM | Motor<br>vehicles<br>RM | Renovation<br>RM | Total<br>RM       |
|--|----------------------------------|-----------------------------|-------------------------|------------------|-------------------|
| <b>Financial year ended<br/>31 December 2004</b> |                                  |                             |                         |                  |                   |
| Net book value at<br>1 January 2004              | 6,041,341                        | 4,624,667                   | 103,000                 | 6,775,695        | 17,544,703        |
| Additions at cost                                | 342,994                          | 1,095,605                   | -                       | 571,999          | 2,010,598         |
| Disposals  | -                                | (7,319)                     | -                       | -                | (7,319)           |
| Depreciation charge                              | (794,135)                        | (1,881,554)                 | (63,333)                | (594,047)        | (3,333,069)       |
| Net book value at<br>31 December 2004            | <u>5,590,200</u>                 | <u>3,831,399</u>            | <u>39,667</u>           | <u>6,753,647</u> | <u>16,214,913</u> |
| <b>At 31 December 2004</b>                       |                                  |                             |                         |                  |                   |
| Cost   | 6,634,291                        | 16,141,323                  | 330,000                 | 7,638,493        | 30,744,107        |
| Accumulated depreciation                         | (1,044,091)                      | (12,309,924)                | (290,333)               | (884,846)        | (14,529,194)      |
| Net book value                                   | <u>5,590,200</u>                 | <u>3,831,399</u>            | <u>39,667</u>           | <u>6,753,647</u> | <u>16,214,913</u> |
| <b>Financial year ended<br/>31 December 2003</b> |                                  |                             |                         |                  |                   |
| Net book value at<br>1 January 2003              | 385,192                          | 5,640,386                   | 169,000                 | 510,854          | 6,705,432         |
| Additions at cost                                | 5,910,926                        | 604,940                     | -                       | 6,545,999        | 13,061,865        |
| Disposals  | (41,915)                         | -                           | -                       | (51,866)         | (93,781)          |
| Depreciation charge                              | (212,862)                        | (1,620,659)                 | (66,000)                | (229,292)        | (2,128,813)       |
| Net book value at<br>31 December 2003            | <u>6,041,341</u>                 | <u>4,624,667</u>            | <u>103,000</u>          | <u>6,775,695</u> | <u>17,544,703</u> |
| <b>At 31 December 2003</b>                       |                                  |                             |                         |                  |                   |
| Cost   | 6,291,297                        | 15,056,697                  | 330,000                 | 7,066,493        | 28,744,487        |
| Accumulated depreciation                         | (249,956)                        | (10,432,030)                | (227,000)               | (290,798)        | (11,199,784)      |
| Net book value                                   | <u>6,041,341</u>                 | <u>4,624,667</u>            | <u>103,000</u>          | <u>6,775,695</u> | <u>17,544,703</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in the cost of property, plant and equipment are the following fully depreciated property, plant and equipment which are still in use:

|                         | 2004<br>RM     | 2003<br>RM |
|-------------------------|----------------|------------|
| Furniture and equipment | 4,850          | -          |
| Motor vehicles          | 160,000        | -          |
|                         | <u>164,850</u> | <u>-</u>   |

### 4 INVESTMENTS

|   | 2004                    |                       | 2003                    |                       |
|---|-------------------------|-----------------------|-------------------------|-----------------------|
|   | Carrying<br>value<br>RM | Market<br>value<br>RM | Carrying<br>value<br>RM | Market<br>value<br>RM |
| Malaysian Government Securities                   | 244,723,077             |                       | 298,863,178             |                       |
| Amortisation of premiums                          | (4,103,242)             |                       | (7,213,345)             |                       |
|   | <u>240,619,835</u>      | <u>241,672,000</u>    | <u>291,649,833</u>      | <u>287,089,800</u>    |
| Cagamas papers                                    | 70,510,300              |                       | 19,998,200              |                       |
| (Amortisation of premiums)/accretion of discounts | (17,922)                |                       | 441                     |                       |
|   | <u>70,492,378</u>       | <u>70,306,000</u>     | <u>19,998,641</u>       | <u>19,266,000</u>     |
| Other investments                                 | <u>220,000</u>          |                       | <u>220,000</u>          |                       |
| Quoted:   |                         |                       |                         |                       |
| Equity securities of corporations:                |                         |                       |                         |                       |
| Quoted in Malaysia                                | 22,692,963              |                       | 10,663,786              |                       |
| Allowance for diminution in value                 | -                       |                       | -                       |                       |
|   | <u>22,692,963</u>       | <u>25,336,028</u>     | <u>10,663,786</u>       | <u>12,615,520</u>     |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4 INVESTMENTS (Continued)

|                                    | 2004                    |                       | 2003                    |                       |
|------------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
|                                    | Carrying<br>value<br>RM | Market<br>value<br>RM | Carrying<br>value<br>RM | Market<br>value<br>RM |
| Unquoted:                          |                         |                       |                         |                       |
| Corporate debt securities          | 81,618,850              |                       | 81,869,350              |                       |
| Amortisation of premiums           | (1,255,231)             |                       | (807,707)               |                       |
|                                    | <u>80,363,619</u>       |                       | <u>81,061,643</u>       |                       |
| Fixed deposits with licensed banks | 125,846,542             |                       | 83,522,788              |                       |
| Total investments                  | <u>540,235,337</u>      |                       | <u>487,116,691</u>      |                       |

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

|                                       | 2004<br>Carrying<br>value<br>RM | 2003<br>Carrying<br>value<br>RM |
|---------------------------------------|---------------------------------|---------------------------------|
| Investments maturing within 12 months | 9,200,000                       | 21,089,610                      |
| Investments maturing after 12 months  | 508,122,374                     | 455,143,295                     |
|                                       | <u>517,322,374</u>              | <u>476,232,905</u>              |

### 5 LOANS

|                             | 2004<br>RM        | 2003<br>RM        |
|-----------------------------|-------------------|-------------------|
| Unsecured staff loans       | 6,424,877         | 7,121,566         |
| Bank guaranteed loans       | 8,750,000         | 9,135,684         |
|                             | <u>15,174,877</u> | <u>16,257,250</u> |
| Receivable within 12 months | 1,090,777         | 1,130,510         |
| Receivable after 12 months  | 14,084,100        | 15,126,740        |
|                             | <u>15,174,877</u> | <u>16,257,250</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 6 RECEIVABLES

|   | 2004<br>RM        | 2003<br>RM        |
|---|-------------------|-------------------|
| <b>Trade receivables</b>  |                   |                   |
| Due premiums including agents, brokers and co-insurers balances | 45,204,947        | 27,046,845        |
| Due from reinsurers and cedants                                 | 15,858,863        | 15,871,584        |
|   | <u>61,063,810</u> | <u>42,918,429</u> |
| Allowance for doubtful debts                                    | (13,393,710)      | (17,228,730)      |
|   | <u>47,670,100</u> | <u>25,689,699</u> |
| <b>Other receivables</b>  |                   |                   |
| Interest income due and accrued                                 | 6,395,049         | 7,648,975         |
| Assets held under Malaysian Motor Insurance Pool                | 2,654,222         | 2,851,504         |
| Other receivables, deposits and prepayments                     | 3,386,398         | 3,630,430         |
| Amount due from related corporations                            | 690,742           | 1,260,132         |
|   | <u>13,126,411</u> | <u>15,391,041</u> |
|   | <u>60,796,511</u> | <u>41,080,740</u> |

The amount due from related corporations is unsecured, interest-free and has no fixed terms of repayment.

The currency exposure of the amount due from related corporations is set out below:

|                      | 2004<br>RM     | 2003<br>RM       |
|----------------------|----------------|------------------|
| Ringgit Malaysia     | 98,517         | 46,914           |
| United States Dollar | 592,225        | 1,213,218        |
|                      | <u>690,742</u> | <u>1,260,132</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of assets and liabilities:

|   | <b>2004</b>      | <b>2003</b>      |
|---|------------------|------------------|
|   | <b>RM</b>        | <b>RM</b>        |
| <u>Subject to income tax:</u>                                     |                  |                  |
| Deferred tax assets   | <u>2,385,000</u> | <u>4,193,000</u> |
| At 1 January  | 4,193,000        | 1,987,000        |
| (Charged)/credited to income statement/revenue account (Note 15): | (1,808,000)      | 2,206,000        |
| - property, plant and equipment                                   | (122,000)        | 191,000          |
| - investments   | (740,000)        | 2,405,000        |
| - trade and other receivables                                     | (865,000)        | (212,000)        |
| - unearned premium reserves                                       | (81,000)         | 42,000           |
| - others  | -                | (220,000)        |
| At 31 December  | <u>2,385,000</u> | <u>4,193,000</u> |
|   | <b>2004</b>      | <b>2003</b>      |
|   | <b>RM</b>        | <b>RM</b>        |
| <u>Subject to income tax:</u>                                     |                  |                  |
| <u>Deferred tax assets (before offsetting)</u>                    |                  |                  |
| Investments   | 1,502,000        | 2,242,000        |
| Trade and other receivables                                       | 2,768,000        | 4,085,000        |
| Unearned premium reserves   | 303,000          | 384,000          |
|   | <u>4,573,000</u> | <u>6,711,000</u> |
| Offsetting  | (2,188,000)      | (2,518,000)      |
| Deferred tax assets (after offsetting)                            | <u>2,385,000</u> | <u>4,193,000</u> |
| <u>Deferred tax liabilities (before offsetting)</u>               |                  |                  |
| Property, plant and equipment                                     | 1,356,000        | 1,234,000        |
| Trade and other receivables                                       | 832,000          | 1,284,000        |
|   | <u>2,188,000</u> | <u>2,518,000</u> |
| Offsetting  | (2,188,000)      | (2,518,000)      |
| Deferred tax liabilities (after offsetting)                       | <u>-</u>         | <u>-</u>         |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8 PROVISION FOR OUTSTANDING CLAIMS

|                                  | 2004<br>RM         | 2003<br>RM         |
|----------------------------------|--------------------|--------------------|
| Provision for outstanding claims | 246,030,237        | 240,423,003        |
| Recoverable from reinsurers      | (81,977,150)       | (87,267,515)       |
| Net outstanding claims           | <u>164,053,087</u> | <u>153,155,488</u> |

### 9 PAYABLES

|  | 2004<br>RM        | 2003<br>RM        |
|--|-------------------|-------------------|
| <b>Trade payables</b>                            |                   |                   |
| Due to agents, brokers, co-insurers and insureds | 24,408,969        | 21,883,067        |
| Due to reinsurers and cedants                    | 40,720,453        | 46,358,769        |
|  | <u>65,129,422</u> | <u>68,241,836</u> |
| <b>Other payables</b>                            |                   |                   |
| Payroll liabilities                              | 653,816           | 997,289           |
| Duties and other taxes payable                   | 2,229,161         | 1,240,443         |
| Accrual for Insurance Guarantee Scheme Fund levy | 991,741           | 890,000           |
| Accrued expenses                                 | 879,671           | 1,948,065         |
| Accrued capital expenditure                      | 382,750           | 12,002,785        |
| Other payables                                   | 416,575           | 1,059,995         |
|  | <u>5,553,714</u>  | <u>18,138,577</u> |
|  | <u>70,683,136</u> | <u>86,380,413</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10 UNEARNED PREMIUM RESERVES

|                                     | Fire<br>RM        | Motor<br>RM       | Marine,<br>aviation<br>and transit<br>RM | Miscellaneous<br>RM | Total<br>RM        |
|-------------------------------------|-------------------|-------------------|--|---------------------|--------------------|
| <b>2004</b>                         |                   |                   |  |                     |                    |
| <b>Short term</b>                   |                   |                   |  |                     |                    |
| At 1 January 2004                   | 22,979,232        | 62,758,219        | 2,454,148                                | 84,032,456          | 172,224,055        |
| Increase /(decrease)<br>in reserves | 40,461,984        | 4,933,032         | (361,688)                                | (28,250,410)        | 16,782,918         |
| At 31 December 2004                 | <u>63,441,216</u> | <u>67,691,251</u> | <u>2,092,460</u>                         | <u>55,782,046</u>   | <u>189,006,973</u> |
| <b>Long term</b>                    |                   |                   |  |                     |                    |
| At 1 January 2004                   | -                 | -                 | -  | -                   | -                  |
| Increase in reserves                | -                 | -                 | -  | 4,248,135           | 4,248,135          |
| At 31 December 2004                 | <u>-</u>          | <u>-</u>          | <u>-</u>                                 | <u>4,248,135</u>    | <u>4,248,135</u>   |
| Total                               | <u>63,441,216</u> | <u>67,691,251</u> | <u>2,092,460</u>                         | <u>60,030,181</u>   | <u>193,255,108</u> |
| <b>2003</b>                         |                   |                   |  |                     |                    |
| <b>Short term</b>                   |                   |                   |  |                     |                    |
| At 1 January 2003                   | 23,448,051        | 62,278,106        | 2,245,223                                | 53,310,455          | 141,281,835        |
| (Decrease)/increase<br>in reserves  | (468,819)         | 480,113           | 208,925                                  | 30,722,001          | 30,942,220         |
| At 31 December 2003                 | <u>22,979,232</u> | <u>62,758,219</u> | <u>2,454,148</u>                         | <u>84,032,456</u>   | <u>172,224,055</u> |
| <b>Long term</b>                    |                   |                   |  |                     |                    |
| At 1 January 2003                   | -                 | -                 | -  | -                   | -                  |
| (Decrease)/increase<br>in reserves  | -                 | -                 | -  | -                   | -                  |
| At 31 December 2003                 | <u>-</u>          | <u>-</u>          | <u>-</u>                                 | <u>-</u>            | <u>-</u>           |
| Total                               | <u>22,979,232</u> | <u>62,758,219</u> | <u>2,454,148</u>                         | <u>84,032,456</u>   | <u>172,224,055</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 AMOUNT DUE TO HEAD OFFICE

|                                   | 2004<br>RM         | 2003<br>RM         |
|-----------------------------------|--------------------|--------------------|
| At 1 January                      | 193,248,541        | 175,196,624        |
| Net profit for the financial year | 34,141,182         | 29,051,917         |
| Transfer to Head Office           | (15,000,000)       | (11,000,000)       |
| At 31 December                    | <u>212,389,723</u> | <u>193,248,541</u> |

## 12 OPERATING REVENUE

## 2004

|                             | Shareholders'<br>fund<br>RM | General<br>fund<br>RM | Total<br>RM        |
|-----------------------------|-----------------------------|-----------------------|--------------------|
| Gross premium               | -                           | 441,129,921           | 441,129,921        |
| Investment income (Note 13) | 1,664,374                   | 20,195,209            | 21,859,583         |
|                             | <u>1,664,374</u>            | <u>461,325,130</u>    | <u>462,989,504</u> |

## 2003

|                             | Shareholders'<br>fund<br>RM | General<br>fund<br>RM | Total<br>RM        |
|-----------------------------|-----------------------------|-----------------------|--------------------|
| Gross premium               | -                           | 401,540,794           | 401,540,794        |
| Investment income (Note 13) | 2,042,772                   | 17,650,877            | 19,693,649         |
|                             | <u>2,042,772</u>            | <u>419,191,671</u>    | <u>421,234,443</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13 INVESTMENT INCOME

|  | 2004<br>RM        | 2003<br>RM        |
|--|-------------------|-------------------|
| <b>General fund</b>  |                   |                   |
| Interest from:   |                   |                   |
| Fixed deposits   | 5,536,260         | 4,166,102         |
| Malaysian Government securities                                | 13,272,365        | 14,468,998        |
| Cagamas papers   | 436,415           | -                 |
| Unquoted corporate debt securities                             | 4,895,890         | 3,582,320         |
| Bank guaranteed loans  | 1,050,949         | 1,104,001         |
| Amortisation of premiums, net of accretion of discounts        | (5,653,484)       | (6,148,941)       |
| Gross dividends from quoted equity securities in Malaysia      | 656,814           | 478,397           |
|  | <u>20,195,209</u> | <u>17,650,877</u> |
| <b>Shareholders' fund</b>                                      |                   |                   |
| Interest from:   |                   |                   |
| Fixed deposits   | 30,902            | 31,576            |
| Malaysian Government securities                                | 1,882,631         | 997,039           |
| Cagamas papers   | 728,179           | 650,600           |
| (Amortisation of premiums)/accretion of discounts-net          | (977,338)         | 363,557           |
|  | <u>1,664,374</u>  | <u>2,042,772</u>  |
| <b>14 OTHER OPERATING INCOME - NET</b>                         |                   |                   |
| <b>General fund</b>  |                   |                   |
| Gain/(loss) on disposal of property, plant and equipment       | 23,000            | (92,781)          |
| Gain on disposal of investments                                | 2,462,499         | 324,226           |
| Write-back of allowance for diminution in value of investments | -                 | 280,978           |
| Sundry income  | 323,530           | 566,489           |
| Sundry expenses  | (39,292)          | (21,105)          |
|  | <u>2,769,737</u>  | <u>1,057,807</u>  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14 OTHER OPERATING INCOME - NET *(Continued)*

|                                 | 2004<br>RM | 2003<br>RM |
|---------------------------------|------------|------------|
| <b>Shareholders' fund</b>       |            |            |
| Gain on disposal of investments | 261,435    | 2,663      |

### 15 TAXATION

|  | 2004<br>RM  | 2003<br>RM  |
|--|-------------|-------------|
| <b>Current tax</b>   |             |             |
| Current financial year                                     | 15,132,000  | 15,801,000  |
| Overprovision of tax in prior financial year               | (1,023,899) | (2,132,459) |
|  | 14,108,101  | 13,668,541  |
| <b>Deferred tax</b>  |             |             |
| Origination and reversal of temporary differences (Note 7) | 1,808,000   | (2,206,000) |
| Tax expense  | 15,916,101  | 11,462,541  |

The explanation of the relationship between tax expense and profit before taxation is as follows:

|   | 2004<br>RM  | 2003<br>RM  |
|---|-------------|-------------|
| Numerical reconciliation between tax expense and the product of accounting profit multiplied by the Malaysian tax rate: |             |             |
| Profit before taxation  | 50,057,283  | 40,515,458  |
| Tax calculated at the Malaysian tax rate of 28% (2003: 28%)   | 14,016,039  | 11,344,328  |
| Overprovision of tax for prior financial year   | (1,023,899) | (2,132,459) |
| Tax effects of expenses not deductible for tax purposes   | 2,923,961   | 2,250,672   |
| Tax expense   | 15,916,101  | 11,462,541  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 16 NET CLAIMS INCURRED

|                                | Fire<br>RM        | Motor<br>RM       | Marine,<br>aviation<br>and transit<br>RM | Miscellaneous<br>RM | Total<br>RM        |
|--------------------------------|-------------------|-------------------|--|---------------------|--------------------|
| <b>2004</b>                    |                   |                   |  |                     |                    |
| Gross claims paid less salvage | 31,684,807        | 105,784,070       | 5,923,065                                | 42,334,918          | 185,726,860        |
| Reinsurance recoveries         | (19,873,728)      | (5,943,122)       | (3,168,989)                              | (17,600,125)        | (46,585,964)       |
| Net claims paid                | 11,811,079        | 99,840,948        | 2,754,076                                | 24,734,793          | 139,140,896        |
| Net outstanding claims:        |                   |                   |  |                     |                    |
| At 31 December 2004            | 11,515,899        | 86,080,619        | 2,832,533                                | 63,624,036          | 164,053,087        |
| At 1 January 2004              | (9,307,216)       | (88,117,567)      | (3,711,811)                              | (52,018,894)        | (153,155,488)      |
| Net claims incurred            | <u>14,019,762</u> | <u>97,804,000</u> | <u>1,874,798</u>                         | <u>36,339,935</u>   | <u>150,038,495</u> |
| <b>2003</b>                    |                   |                   |  |                     |                    |
| Gross claims paid less salvage | 15,470,571        | 95,531,075        | 4,036,167                                | 44,562,196          | 159,600,009        |
| Reinsurance recoveries         | (5,956,827)       | (6,802,038)       | (2,568,240)                              | (18,367,851)        | (33,694,956)       |
| Net claims paid                | 9,513,744         | 88,729,037        | 1,467,927                                | 26,194,345          | 125,905,053        |
| Net outstanding claims:        |                   |                   |  |                     |                    |
| At 31 December 2003            | 9,307,216         | 88,117,567        | 3,711,811                                | 52,018,894          | 153,155,488        |
| At 1 January 2003              | (9,828,693)       | (88,006,421)      | (3,431,616)                              | (50,754,821)        | (152,021,551)      |
| Net claims incurred            | <u>8,992,267</u>  | <u>88,840,183</u> | <u>1,748,122</u>                         | <u>27,458,418</u>   | <u>127,038,990</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17 MANAGEMENT EXPENSES

|   | 2004<br>RM        | 2003<br>RM        |
|---|-------------------|-------------------|
| <b>General fund</b>                                 |                   |                   |
| Staff salaries and bonus                            | 22,009,458        | 19,266,215        |
| Staff benefits                                      | 4,772,254         | 4,204,537         |
| Staff costs   | 26,781,712        | 23,470,752        |
| Auditors' remuneration:                             |                   |                   |
| Statutory audit                                     | 83,000            | 79,200            |
| Fees for other services                             | 25,429            | 15,682            |
| Travelling expenses                                 | 588,541           | 605,207           |
| Motor vehicle expenses                              | 818,545           | 620,466           |
| Legal expenses                                      | 82,510            | 74,045            |
| Advertising   | 5,082,165         | 3,560,871         |
| Printing and stationery                             | 3,542,738         | 2,571,672         |
| Rent and rates                                      | 4,571,768         | 2,330,467         |
| Electricity and water                               | 560,213           | 380,788           |
| Postage, telephone, telex and telefax               | 6,195,338         | 3,575,518         |
| Office maintenance                                  | 315,539           | 341,615           |
| Entertainment                                       | 1,377,527         | 1,033,102         |
| Depreciation of property, plant and equipment       | 3,333,069         | 2,128,813         |
| Training expenses                                   | 1,075,414         | 1,544,776         |
| Insurance Guarantee Scheme Fund levy                | 736,468           | 793,766           |
| EDP expenses  | 6,055,725         | 5,275,675         |
| Bad debts written off                               | 444,739           | 340,634           |
| Bad debts recovered                                 | (56,391)          | (77,653)          |
| (Decrease)/increase in allowance for doubtful debts | (3,308,693)       | 3,302,451         |
| Other expenses                                      | 4,711,064         | 3,919,353         |
|   | <u>63,016,420</u> | <u>55,887,200</u> |

The charge to the income statement for the financial year ended 31 December 2004 in respect of contributions to the Employees' Provident Fund is RM3,119,810 (2003: RM2,698,788).

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Branch during the financial year amounted to RM447,181 (2003: RM539,742).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18 CASH FLOW SEGMENT INFORMATION

|  | Shareholders'<br>fund<br>RM | General<br>fund<br>RM | Total<br>RM         |
|--|-----------------------------|-----------------------|---------------------|
| <b>2004</b>  |                             |                       |                     |
| Cash flows from:                                     |                             |                       |                     |
| Operating activities                                 | 14,916,067                  | (29,149,285)          | (14,233,218)        |
| Investing activities                                 | -                           | (1,980,279)           | (1,980,279)         |
| Financing activities                                 | (15,000,000)                | -                     | (15,000,000)        |
|  | <u>(83,933)</u>             | <u>(31,129,564)</u>   | <u>(31,213,497)</u> |
| Net decrease in cash and cash equivalents            | (83,933)                    | (31,129,564)          | (31,213,497)        |
| Cash and cash equivalents:                           |                             |                       |                     |
| At 1 January 2004                                    | <u>90,863</u>               | <u>38,595,667</u>     | <u>38,686,530</u>   |
| At 31 December 2004                                  | <u>6,930</u>                | <u>7,466,103</u>      | <u>7,473,033</u>    |
| <b>2003</b>  |                             |                       |                     |
| Cash flows from:                                     |                             |                       |                     |
| Operating activities                                 | 10,746,172                  | 32,787,920            | 43,534,092          |
| Investing activities                                 | -                           | (13,060,865)          | (13,060,865)        |
| Financing activities                                 | (11,000,000)                | -                     | (11,000,000)        |
|  | <u>(253,828)</u>            | <u>19,727,055</u>     | <u>19,473,227</u>   |
| Net (decrease)/increase in cash and cash equivalents | (253,828)                   | 19,727,055            | 19,473,227          |
| Cash and cash equivalents:                           |                             |                       |                     |
| At 1 January 2003                                    | <u>344,691</u>              | <u>18,868,612</u>     | <u>19,213,303</u>   |
| At 31 December 2003                                  | <u>90,863</u>               | <u>38,595,667</u>     | <u>38,686,530</u>   |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 19 RELATED PARTY DISCLOSURES

The Corporation is a subsidiary of American International Group, Inc., a corporation incorporated in the United States of America. In the normal course of business, the Corporation's operations in Malaysia undertake at agreed terms and prices, various transactions with the holding corporation and other related corporations deemed related parties by virtue of them being members of American International Group, Inc. group of companies ("AIG Group").

(a) Details of significant transactions arising from normal business transactions during the financial year between the Corporation's operations in Malaysia and AIG Group are as follows:

|  | 2004<br>RM   | 2003<br>RM   |
|--|--------------|--------------|
| Premiums received  | 508,717      | 549,508      |
| Inward reinsurance premiums received   | 753,472      | 1,784,875    |
| Reinsurance premiums ceded   | (36,546,781) | (43,097,881) |
| Claims paid  | (138,000)    | (268,644)    |
| Reinsurance claims recoveries  | 1,067,584    | 2,124,079    |
| Commissions paid   | (46,222)     | (77,623)     |
| Commissions earned   | 2,545,219    | 3,497,011    |
| Rental and utilities paid to a related corporation   | (4,126,380)  | (47,658)     |
| System related costs paid to related corporations  | (2,532,847)  | (3,086,853)  |
| Personnel and related costs received from a related corporation                                | 225,968      | 303,790      |
| Accrued capital expenditure for property, plant and equipment payable to a related corporation | -            | (10,120,402) |

(b) The related party balances as at the date of the statement of assets and liabilities are included in the following notes to the financial statements:

|                                      | 2004<br>RM | 2003<br>RM |
|--------------------------------------|------------|------------|
| <b>Receivables (Note 6)</b>          |            |            |
| Due from reinsurers and cedants      | 932,420    | 2,633,597  |
| Amount due from related corporations | 690,742    | 1,260,132  |
| <b>Payables (Note 9)</b>             |            |            |
| Due to reinsurers and cedants        | 912,374    | 18,305,268 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20 FINANCIAL INSTRUMENTS

#### Financial risk management objectives and policies

##### **Investment risk**

Generally, insurance regulations restrict the types of assets in which an insurance company may invest. Investment risk represents the exposure to loss resulting from the cash flows from the invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary returns on investments.

The Branch makes moderate to long-term investments primarily in Malaysian Government Securities and investment graded corporate bonds to support the general insurance policy liabilities.

To minimise its exposure to investment risk, the Branch adopts fundamental research and active management to seek a balanced portfolio to meet the investment objectives for income, security of principal and diversification in terms of size, issuers and types of industry.

##### **Equity price risk**

The Branch currently maintains low exposure to listed equity securities at less than 10% of its total portfolio to limit its equity price risk.

##### **Interest rate risk**

The Branch's investment activities are inherently exposed to interest rate risk which arises principally from differences in maturity or re-pricing of invested assets. In dealing with this risk, the Branch adopts an approach of focusing on achieving a desired overall interest rate profile, which may change over time, based on management's longer term view of interest rates and economic conditions.

##### **Liquidity risk**

Liquidity risk is the risk that the Branch cannot meet its financial liabilities when due. Liquidity risk is managed both at corporate level and local level. The Branch's liquidity is primarily derived from the operating cash flows which are derived from two sources i.e. underwriting operations and investment operations.

AIG's strong capital position is integral to managing this liquidity, as it enables AIG to raise funds in diverse markets worldwide. Management believes that AIG's liquid assets, its net cash provided by operations and access to the capital markets will enable it to meet any foreseeable cash requirements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20 FINANCIAL INSTRUMENTS *(Continued)*

#### **Business and operational risk**

Operational risks include legal, tax, political, regulatory, market conduct and business continuity risks.

These risks arise from the uncertainty of the enforceability through legal or judicial processes, of the obligations of the Branch's clients and counterparts. Internal Audit, supported by Legal and Compliance departments, review the effectiveness of internal controls on a regular basis.

#### **Underwriting and credit risk**

The Branch as part of AIG is a major purchaser of reinsurance. AIG is cognisant of the need to exercise good judgement in the selection and approval of companies participating in its reinsurance programs.

AIG's Reinsurance Security department, consisting of members of AIG's senior management, conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers. Such assessments include, but are not limited to, identifying if a reinsurer is appropriately licensed, and has sufficient financial capacity, and the local economic environment. This department also reviews the nature of the risks ceded and the need for collateral. In addition, AIG's Credit Risk Committee reviews the credit limits and concentrations with any one reinsurer. No single reinsurer is a material reinsurer on AIG nor is AIG's business substantially dependent upon any reinsurance contract.

In the ordinary course of business, the Branch cedes reinsurance to other insurance companies in order to provide greater diversification of its business and limit the potential losses arising from large risks.

The Branch's reinsurance arrangements do not relieve it from its direct obligations to its insureds. Thus, a credit exposure exists with respect to general reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Branch manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20 FINANCIAL INSTRUMENTS (Continued)

#### Weighted average effective interest rates and maturity dates

The following table summarises the composition of the Branch's weighted average effective interest rate and the maturity date for each class of interest-bearing financial instrument in the statement of assets and liabilities:

|   | <u>Interest-bearing/maturity date</u> |                         |                       |                            | Total<br>carrying<br>value<br>RM | Weighted<br>average<br>effective<br>interest rate<br>% |
|---|---------------------------------------|-------------------------|-----------------------|----------------------------|----------------------------------|--|
|   | Non-interest<br>bearing<br>RM         | 1 year or<br>less<br>RM | 1 to 5<br>years<br>RM | More than<br>5 years<br>RM |                                  |  |
| <b>2004</b>   |                                       |                         |                       |                            |                                  |  |
| Financial assets:   |                                       |                         |                       |                            |                                  |  |
| Investments   |                                       |                         |                       |                            |                                  |  |
| - Malaysia  |                                       |                         |                       |                            |                                  |  |
| Government  |                                       |                         |                       |                            |                                  |  |
| Securities  | -                                     | -                       | 198,141,738           | 42,478,097                 | 240,619,835                      | 3.50   |
| - Cagamas papers  | -                                     | -                       | 70,492,378            | -                          | 70,492,378                       | 3.08   |
| - Corporate debt securities                                 | -                                     | -                       | 10,193,724            | 70,169,895                 | 80,363,619                       | 5.47   |
| - Equity securities of corporations                         | 22,692,963                            | -                       | -                     | -                          | 22,692,963                       | -  |
| - Fixed deposits  | -                                     | 9,200,000               | 40,135,450            | 76,511,092                 | 125,846,542                      | 4.26   |
| - Other investments   | 220,000                               | -                       | -                     | -                          | 220,000                          | -  |
| Bank guaranteed loans                                       | -                                     | 454,544                 | 2,272,720             | 6,022,736                  | 8,750,000                        | 8.25   |
| Unsecured staff loans                                       | 13,607                                | 625,057                 | 1,752,175             | 4,034,038                  | 6,424,877                        | 4.91   |
| Other receivables   | 13,126,411                            | -                       | -                     | -                          | 13,126,411                       | -  |
| Cash and bank balances                                      | 7,473,033                             | -                       | -                     | -                          | 7,473,033                        | -  |
| <b>Total financial assets</b>                               | <b>43,526,014</b>                     | <b>10,279,601</b>       | <b>322,988,185</b>    | <b>199,215,858</b>         | <b>576,009,658</b>               |  |
| Other financial assets*                                     |                                       |                         |                       |                            | 47,670,100                       |  |
| <b>Total financial assets</b>                               |                                       |                         |                       |                            | <b>623,679,758</b>               |  |
| Non-financial assets:                                       |                                       |                         |                       |                            |                                  |  |
| Property, plant and equipment                               |                                       |                         |                       |                            | 16,214,913                       |  |
| Deferred tax assets   |                                       |                         |                       |                            | 2,385,000                        |  |
| <b>Total assets per statement of assets and liabilities</b> |                                       |                         |                       |                            | <b>642,279,671</b>               |  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 20 FINANCIAL INSTRUMENTS (Continued)

|   | <u>Interest-bearing/maturity date</u> |                   |                 |                      | Total carrying value RM | Weighted average effective interest rate % |
|---|---------------------------------------|-------------------|-----------------|----------------------|-------------------------|--|
|   | Non-interest bearing RM               | 1 year or less RM | 1 to 5 years RM | More than 5 years RM |                         |  |
| <b>2004</b>   |                                       |                   |                 |                      |                         |  |
| Financial liabilities:                                    |                                       |                   |                 |                      |                         |  |
| Other payables  | 5,553,714                             | -                 | -               | -                    | 5,553,714               | -  |
| Other financial liabilities*                              |                                       |                   |                 |                      | 422,437,617             |  |
| Total financial liabilities                               |                                       |                   |                 |                      | 427,991,331             |  |
| Non-financial liabilities:                                |                                       |                   |                 |                      |                         |  |
| Current tax liabilities                                   |                                       |                   |                 |                      | 1,898,617               |  |
| Total liabilities per statement of assets and liabilities |                                       |                   |                 |                      | 429,889,948             |  |

(\*Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts is not shown as it is excluded from the scope of MASB Standard 24 "Financial Instruments: Disclosure and Presentation".)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20 FINANCIAL INSTRUMENTS (Continued)

The following table summarises the composition of the Branch's weighted average effective interest rate and the maturity date for each class of interest-bearing financial instrument in the statement of assets and liabilities:

|   | <u>Interest-bearing/maturity date</u> |                         |                       |                            | Total<br>carrying<br>value<br>RM | Weighted<br>average<br>effective<br>interest rate<br>% |
|---|---------------------------------------|-------------------------|-----------------------|----------------------------|----------------------------------|--|
|   | Non-interest<br>bearing<br>RM         | 1 year or<br>less<br>RM | 1 to 5<br>years<br>RM | More than<br>5 years<br>RM |                                  |  |
| <b>2003</b>   |                                       |                         |                       |                            |                                  |  |
| Financial assets:   |                                       |                         |                       |                            |                                  |  |
| Investments   |                                       |                         |                       |                            |                                  |  |
| - Malaysia  |                                       |                         |                       |                            |                                  |  |
| Government Securities                                       | -                                     | -                       | 248,515,014           | 43,134,819                 | 291,649,833                      | 3.25   |
| - Cagamas papers  | -                                     | -                       | -                     | 19,998,641                 | 19,998,641                       | 3.25   |
| - Corporate debt securities                                 | -                                     | 5,002,226               | 10,250,747            | 65,808,670                 | 81,061,643                       | 5.61   |
| - Equity securities of corporations                         | 10,663,786                            | -                       | -                     | -                          | 10,663,786                       | -  |
| - Fixed deposits  | -                                     | 16,087,384              | 11,000,000            | 56,435,404                 | 83,522,788                       | 4.78   |
| - Other investments   | 220,000                               | -                       | -                     | -                          | 220,000                          | -  |
| Bank guaranteed loans                                       | -                                     | 454,544                 | 2,272,720             | 6,408,420                  | 9,135,684                        | 8.25   |
| Unsecured staff loans                                       | 17,873                                | 665,760                 | 2,121,508             | 4,316,425                  | 7,121,566                        | 4.90   |
| Other receivables   | 15,391,041                            | -                       | -                     | -                          | 15,391,041                       | -  |
| Cash and bank balances                                      | 38,686,530                            | -                       | -                     | -                          | 38,686,530                       | -  |
| <b>Total financial assets</b>                               | <u>64,979,230</u>                     | <u>22,209,914</u>       | <u>274,159,989</u>    | <u>196,102,379</u>         | <u>557,451,512</u>               |  |
| Other financial assets*                                     |                                       |                         |                       |                            | <u>25,689,699</u>                |  |
| <b>Total financial assets</b>                               |                                       |                         |                       |                            | <u>583,141,211</u>               |  |
| Non-financial assets:                                       |                                       |                         |                       |                            |                                  |  |
| Property, plant and equipment                               |                                       |                         |                       |                            | 17,544,703                       |  |
| Tax recoverable   |                                       |                         |                       |                            | 906,517                          |  |
| Deferred tax assets   |                                       |                         |                       |                            | 4,193,000                        |  |
| <b>Total assets per statement of assets and liabilities</b> |                                       |                         |                       |                            | <u>605,785,431</u>               |  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 20 FINANCIAL INSTRUMENTS (Continued)

|   | <u>Interest-bearing/maturity date</u> |                   |                 |                      | Total carrying value RM | Weighted average effective interest rate % |
|---|---------------------------------------|-------------------|-----------------|----------------------|-------------------------|--|
|   | Non-interest bearing RM               | 1 year or less RM | 1 to 5 years RM | More than 5 years RM |                         |  |
| <b>2003</b>   |                                       |                   |                 |                      |                         |  |
| Financial liabilities:                                    |                                       |                   |                 |                      |                         |  |
| Other payables  | 18,138,577                            | -                 | -               | -                    | 18,138,577              | -  |
| Other financial liabilities*                              |                                       |                   |                 |                      | 393,621,379             |  |
| Total financial liabilities                               |                                       |                   |                 |                      | 411,759,956             |  |
| Non-financial liabilities:                                |                                       |                   |                 |                      |                         |  |
| Current tax liabilities                                   |                                       |                   |                 |                      | 776,934                 |  |
| Total liabilities per statement of assets and liabilities |                                       |                   |                 |                      | 412,536,890             |  |

(\* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts is not shown as it is excluded from the scope of MASB Standard 24 "Financial Instruments: Disclosure and Presentation".)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Fair values

The carrying values of financial assets and liabilities of the Branch as at 31 December approximated their fair values, except for the following:

|  | <b>Carrying values<br/>2004<br/>RM</b> | <b>Fair values<br/>2004<br/>RM</b> |
|--|--|------------------------------------|
| Investments:                               |  |                                    |
| - Malaysian Government Securities          | 240,619,835                            | 241,672,000                        |
| - Cagamas papers                           | 70,492,378                             | 70,306,000                         |
| - Quoted equity securities of corporations | 22,692,963                             | 25,336,028                         |
| - Unquoted debt securities                 | <u>80,363,619</u>                      | <u>81,893,200</u>                  |
|  |  |                                    |
|  | <b>Carrying values<br/>2003<br/>RM</b> | <b>Fair values<br/>2003<br/>RM</b> |
| Investments:                               |  |                                    |
| - Malaysian Government Securities          | 291,649,833                            | 287,089,800                        |
| - Cagamas papers                           | 19,998,641                             | 19,266,000                         |
| - Quoted equity securities of corporations | 10,663,786                             | 12,615,520                         |
| - Unquoted debt securities                 | <u>81,061,643</u>                      | <u>82,020,300</u>                  |

The carrying value of investments in Cagamas papers at the balance sheet date have not been written down to their fair value as the Management is of the opinion that these investments will be held for long-term purposes.